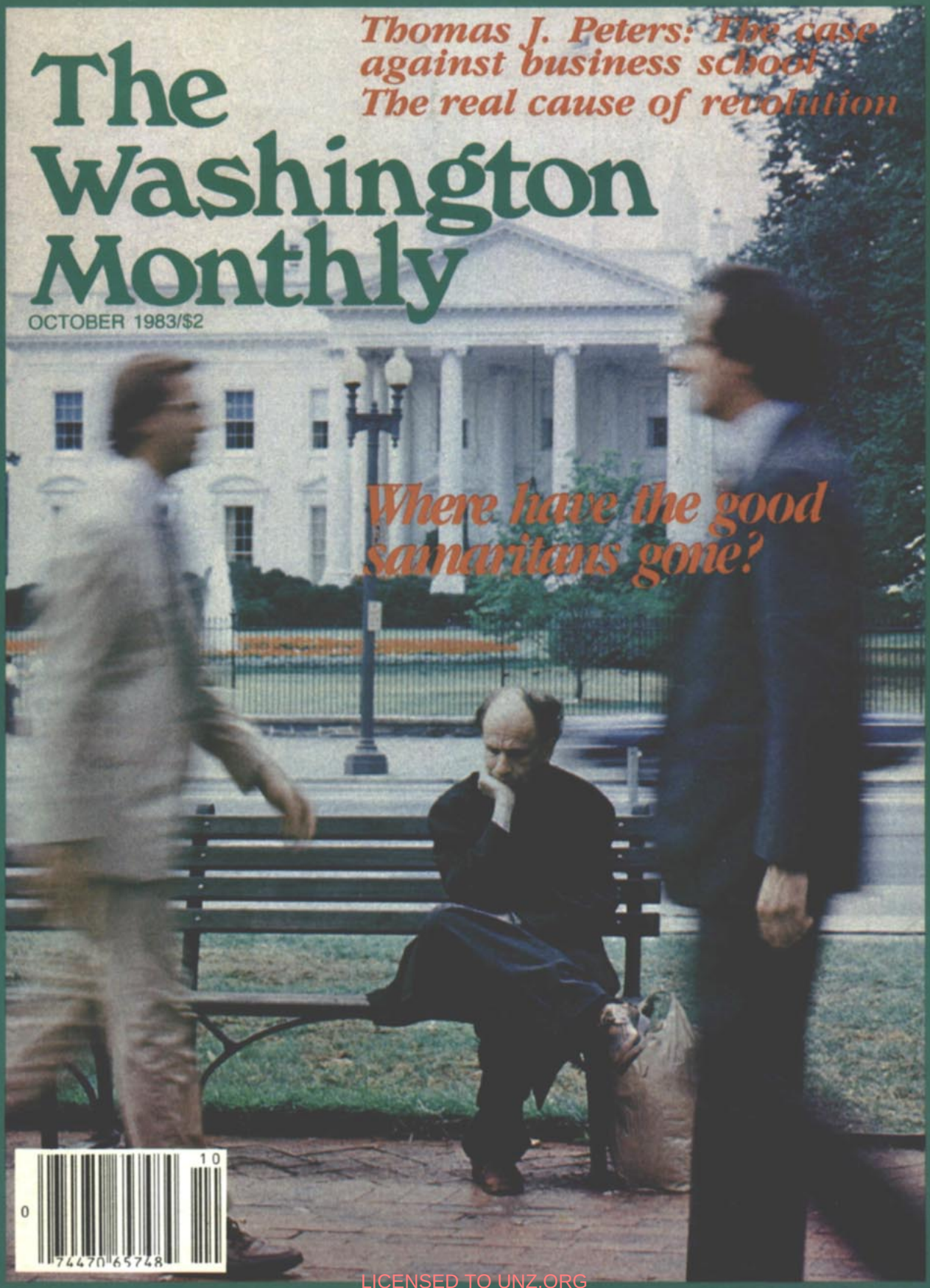
# The Washington Monthly

OCTOBER 1983/$2

*Thomas J. Peters: The case against business school*

*The real cause of revolution*



*Where have the good samaritans gone?*

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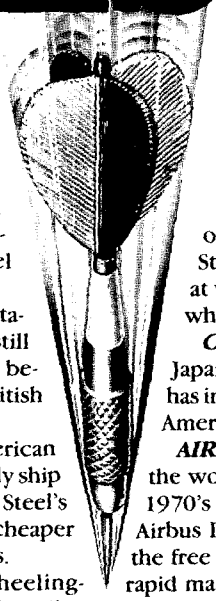
# BULLSEYE



Brazil is the latest country seeking to sell hundreds of thousands of tons of subsidized steel slabs to an American steel company for finishing into steel products.

The slabs would replace steel made in America, further reduce our steelmaking capacity and throw out of work additional thousands of steel industry suppliers, steelworkers, and service employees in steel towns.

However, a Brazilian government representative said Brazil is "... being cautious and is still waiting to see the outcome of a similar deal between United States Steel Corporation and British Steel Corporation."

In earlier statements we warned the American public that if British Steel is allowed to annually ship 3 million tons of subsidized steel to U.S. Steel's Fairless Works, there would be a flood of cheaper deals from Brazil, Korea, and other countries.

Already, Brazil is negotiating with Wheeling-Pittsburgh Steel to ship raw steel slabs to Steubenville, Ohio. The Steubenville Works has just installed brand new "state-of-the-art" equipment to make its own slabs. Workers there have taken deep cuts in pay and benefits to help their company modernize.

Still, Wheeling-Pittsburgh officials say, the Brazilian steel would be far cheaper. Steubenville's inland location, modern equipment, and substantially lower labor costs are all overcome by the Brazilian government's subsidy to its new steel industry.

What is happening in the steel industry is a dramatic example of the problem of international targeting of selected industries.

Through targeting, a government gives preferred treatment to a chosen industry—subsidizing its development in many ways until its products can be dumped on foreign markets at prices far below the true cost of production.

Because of our high consumption and lack of a national industrial policy, the United States is a sitting duck for these practices. Look at what has happened in some other industries which have been targeted:

***COMPUTERIZED MACHINE TOOLS:*** Japan's share of this market in the United States has increased from 5% to 50% since 1976. 24,000 American jobs have been lost.

***AIRBUS:*** Western European countries targeted the world commercial aircraft market in the early 1970's with the creation of a joint venture called Airbus Industries—which now accounts for half of the free world market for widebodied aircraft. This rapid market penetration contributed to Lockheed's decision to stop production of the L1011, with a loss of 4,000 jobs.

Private American business firms and workers cannot compete against the governments of foreign countries. Some American industries are simply disappearing. Others are falling far behind their subsidized foreign competitors.

Today we are faced with the very real threat of losing America's steel independence. If we do, much of our military power and economic base will also be lost.

Tomorrow, it could be *your* industry. It could be *your* job.

# USA

## *Brazil Joins Britain In Attack On USA's Steel Independence*

**UNITED STEELWORKERS OF AMERICA**

Lloyd McBride, President
Five Gateway Center
Pittsburgh, Pennsylvania 15222

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# LETTERS

## Low Blows at Highbrows

While certain tenured professors in the most prestigious universities may get away with teaching only one course per term at full pay ["Highbrow Robbery" by Timothy Noah, July/August], the normal teaching load at most institutions is three courses per term, exactly the 12 to 15 hours per week that Noah recommends. I have seen positions advertised which require four courses per term—at an annual salary of $13,000, in one case. Whatever a given institution's definition of full time is, part-time instructors typically receive a per-course salary that is less than proportionate to the full-time salary. For example, I teach two-thirds time for a consortium of colleges in the Twin Cities (I did my graduate work at Cornell and Yale) but my annual salary is less than half the starting salary of the lowest paying of these colleges, and I get no benefits.

Noah's mention of trendy shops surrounding college campuses tells me that his experience of academia is limited, perhaps to Harvard or Princeton. (The business districts surrounding Yale and Columbia are decidedly untrendy.) These shopping districts are found only around the campuses of certain of the most expensive colleges, and they cater far more to the overindulged children of M.D.s, C.P.A.s, J.D.s, and M.B.A.s than to the rank-and-file Ph.D.s who make up the faculty. Less pretentious institutions, such as the University of Minnesota, attract mostly pizza and hamburger shops.

KAREN SANDNESS
Robbinsdale, Minnesota

If the "Some of X implies all of X" logic of your "Highbrow Robbery" article were applied to the auto industry, the typical car would have the price of a Mercedes, the fuel efficiency of a motor home, the repair record of a demolition derby contestant, and be assembled by a worker making the salary of Lee Iacocca. In academia, as in autos, a single example does not an average make.

PHILIP A. SCHRODT
Evanston, Illinois

Timothy Noah has relied heavily on innuendo and gossipy generalizations to give readers a suggestive glimpse of the well-paid, underworked college professor. His program for tuition reform is weakened by the unworkability of one of its main proposals: to double the "teaching work week" from 15 hours (five hours of classroom teaching plus ten hours of class preparation) to 30 hours, which would still leave professors "plenty of time for research and writing. "

But a conservative estimate of a "teaching work week" based on five hours of classroom teaching is actually about 30 hours, twice what Mr. Noah thinks it is. In practice, most teachers I have known at major universities and small colleges spend more than the "standard two hours of preparation per classroom hour" estimated by Mr. Noah, if we include under that heading the development of materials for new courses, and the deepening and updating of materials for old courses.

JOYCE VAN DYKE
Washington, D.C.

Timothy Noah proposes long-term student loans for college expenses, a sound beginning to the solution of the problems Mr. Noah addresses. He does not address the inequitable burden of repayment for female graduates, who will earn about 40 percent less than their male counterparts. Similar disparities exist between whites and minorities.

ERILE GOLDEN
San Diego, California

Mr. Noah's article cannot go without comment from one of the academicians for whose jugular he went. It was particularly galling to me because, although included in the various averages to which he resorted to make his point, I am one of the majority whose job profile is distorted by the few at the favored end of the scale. One can point to the populace of, say, various Latin American countries and claim that the mean income is, e.g., $5,000 a year—ignoring that if one used the mode rather than the mean, we would find that some 10 percent of the society have incomes of several hundred thousand per annum but 70 percent have incomes of less than $500 per annum. So, one can claim that the "average full professor" makes "a miserly $41,600" per year and teaches "nine hours overall"—which ain't bad, given a "life of contemplation under Gothic spires and arching boughs," three to four "glorious summer months," frequently spent in Europe (when not trying to push through the mobs of students who are the majority of patrons in those "pricey boutiques and trendy little restaurants" dotting the towns where faculty supposedly live), and such perks as free housing. We are asked to feel sorry for "the 40-year-old GS-15s who may secretly yearn to abandon their comfortable sinecures [he said it, not me!] and strike out on their own in jobs they'd truly enjoy, but instead stay put at their desks churning out planning analyses for $55,000 a year. "

M. ESTELLIE SMITH
Oswego, New York

## And Speaking of Robbery. . .

Your July/August issue is well named—"Highbrow Robbery. " Just look at the ad on page 21 for the "Neoliberal Conference" at $250. I ran a state con-



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ference for four days at half that price. Who gets all that money? You?

MALCOLM MITCHELL
Roseville, California

*The editors reply:*

While we don't scorn profit as a goal, it has, alas, proved largely elusive, as those who know our history will attest. As for the conference, we'd be delighted to break even.

## Constellation Consternation

I am totally appalled by your "Stars of the States" article [by Douglas Jehl, July/August]. It's plenty obvious that Washington doesn't have a monopoly on strong and innovative leadership. But after conducting 100 interviews in 50 states you concluded that not one woman met the mark? Women struggle long and hard to make it to the top. Are you saying none of them are worthy of recognition when they finally get there?

SARA E. MEYER
St. Paul, Minnesota

## The Impervious Presidency

William Greider ("On Political Books," July/August) suggests that Ronald Reagan's policies in Central America may lead to a repetition of what happened to Jimmy Carter when by backing the Shah (and thus precipitating the Iranian hostage crisis), he "failed to face reality and, in time, reality made him look like a wimp."

Greider has it all wrong. Before allowing reality to make him look like a wimp, Ronald Reagan would blow reality to kingdom come.

LEONARD ROY FRANK
San Francisco, California

## Fleece Or Be Fleeced

Your article ["How to Fleece the PACs" by Tom Hamburger, July/August] forced a bit of self-analysis on me, as a campaign manager for a small local election. Florida state law requires that if someone wants to sponsor a good old-fashioned fund-raiser where people contribute $5 at the door, it must be fully reported in advance, all expenses incumbent to the fund-raiser must be paid for out of the campaign treasury, the printed disclaimer required is twice as long as the ticket invitation, and the full name, street address, and occupation of every little $5 contributor must be dutifully reported on the forms.

A campaign manager better have a lawyer and an accountant on staff to take care of all the legal questions and the paperwork. It's a wiser use of time to go out and massage a few fat-cat contributors than to bury yourself in paperwork for the $5 donor.

PETER K. ILCHUK
Key West, Florida


# The Washington Monthly

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*Cover photograph by Shephard Sherbell*



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# TILTING AT WINDMILLS

The rich continue to manipulate our legal system. Mary Hudson Vandergrift, who is said to be one of the country's wealthiest individuals, pleaded no-contest to a felony-theft charge. What she had done was instruct her oil company employees to readjust gas pumps so that they delivered less gas than the customer had paid for. Thousands of customers in 16 states were deliberately cheated by this woman. Her punishment: a $500 fine and 200 hours of public service work—that comes to a grand total of 25 eight-hour days. She could have been—and you and I probably would have been—sentenced to up to five years in jail. Just for comparison, do you remember reading last year about the hefty jail term given Frank Wills, the black security guard who ten years earlier had discovered the Watergate break-in? His crime was stealing one pair of tennis shoes. . . .

Regular readers know that I regard Never Leave The City Where The Good Bars Are as the governing principle of life overseas in the Foreign Service, the CIA, and the military. The rule also has found consistent domestic application in the tendency of federal employees to prefer work in Washington to service in the provinces. And, in the event the latter can't be avoided, the preference of a Boston, Massachusetts over a Butte, Montana.

The latest illustration of what might be called the Boston-Butte Corollary is provided by the bureaucrats who are operating the Strategic Petroleum Reserve. Ninety-four percent of the program's money is spent in places like West Hackberry and Bayou Choctaw in rural Texas and Louisiana, but 90 percent of the employees work in New Orleans. . . .

If the Educational Testing Service could ever redeem itself by devising a test that accurately measures common sense, Tom Eagleton would certainly score among the top ten in the Senate. So when he wrote me about an article advocating merit pay for teachers that Phil Keisling and I had done for *The New York Times*, I read his letter with care and respect. I think you might find it worth reading too. Here's what he said:

"Many of the articles and commentaries on merit pay seem to be premised on the notion that the nation is faced with a choice: *Either* raise the base salaries of all teachers *or* have selective pay increases for some teachers based on a fair merit evaluation system.

"I think we desperately need *both*. Let me explain, using Missouri as my base of experience.

"Even today we have school districts in Missouri where the beginning salary for a new teacher is $8,500 per year. Assume you are in one of Missouri's state universities. You talk with the guidance or career counselor. He tells you that the teaching



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profession is dreadfully, dreadfully underpaid and, in all likelihood, will remain so. He tells you that you will have one hell of a time owning your own home or giving your own children a college education on a teacher's salary. If you are gung-ho 'dedicated,' you may persevere. Otherwise, you probably will pursue something with a greater economic potential.

"And that's exactly what is happening at our Missouri state universities. We used to have five of them which were called 'teachers colleges.' We now call them 'universities' both for reasons of prestige and because graduates from these schools today are *not* entering the teaching profession. Teaching is a dead-end job and college students view it as such.

"Just a few minutes ago I had the 'Missouri Teacher of the Year' in my office prior to his having lunch with President Reagan. His name is Bill McLaughlin and he teaches chemistry at Central High School in St. Joseph. He has won all sorts of awards for his classroom teaching skills and is working on his Ph.D. in chemistry at the University of Nebraska.

"He is a marvelously engaging person. In addition to his chemistry courses, he teaches a class of 14 gifted students a course in scientific research. Two of his students have won a Westinghouse Award for their academic work. He told me that one of his previous students out of his gifted class had just graduated from college with a degree in chemistry and had accepted a job with a corporation which for starters paid more than McLaughlin's own salary after 14 years of teaching. He wasn't disillusioned. He was proud of his erstwhile student and delighted with his success. But isn't something very, very wrong when a superb teacher is so grossly underpaid?

". . .we need a *fair* merit pay system that rewards a guy like Bill McLaughlin. When he busts his butt and produces, he deserves to be recognized for it, not only on his wall with a plaque, but in his pocketbook with some green.

"But in order to have truly meritorious people to recognize with merit pay, you have to attract talented people into the profession in the first place. Under today's basic pay scales, I don't see many new Bill McLaughlins entering or staying in the teaching profession and, hence, they won't be around five or ten years from now when you want to give them a merit pay increase."

I agree with Tom Eagleton that there is a need to pay more to new teachers—this is particularly true in sciences and math—but that does not mean we must pay more to the veteran teacher who is mediocre or worse. If he is not fired, he certainly should not get raises that encourage him to go on miseducating our young. . . .

Another letter, this from my friend Randall Rothenberg, tells why his mother quit teaching:

"Lousy administrators who refused to discipline kids because they, not the teachers, feared parents; administrators, not teachers, who insisted on boring lesson plans; administrators who, in many cases, were failed teachers."

Of course there are lots of bad administrators—some of them have had their brains turned into mush by too many meetings and conferences—and any school board that institutes a system of merit pay should first make sure it has an administrator who can put the system into effect with fairness and intelligence. My own preference is to have experienced master teachers do the day-to-day evaluating.

Any evaluation will fall short of perfection. But isn't it better to evaluate teachers on ability rather than seniority or education credits and degrees, which is how they are evaluated today?

Finally, Ellen Goodman made the best point about merit pay: "There is something amusing about the way that teachers, of all people, resist being graded." . . .

Last year the White House dining room lost $35,787 by serving meals worth an average of $10.24 and charging an average price of $5.81. The meals were, of course, served to the same Reagan administration officials who scorn subsidies and welfare. . . .

On August 11 *The Wall Street Journal*'s editorial page quoted this statement by John Whitehead, senior partner of Goldman, Sachs & Company:

"I believe that it should be possible for the management skills and the administrative structures of corporate America to be effectively harnessed to solve our social problems. Examples abound. One of the most dramatic is the growth of private-sector



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hospital-management companies, who are now providing in many areas better hospital service at lower cost than either public or not-for-profit hospitals. "

On page 6 of the same issue appeared an article about a study in the *New England Journal of Medicine* that found "the big, for-profit chains charged 24 percent more for services than the non-profits did. ". . .

A remarkable article by Peter Elkind in the August *Texas Monthly* describes how, between May and December 1981, ten children died after "sudden and unexplained complications" while under the care of a licensed vocational nurse named Genene Jones in the intensive care unit of a hospital in San Antonio, Texas.

How did the hospital respond? Instead of firing Jones and calling the police, it replaced all the licensed vocational nurses in intensive care with registered nurses as a subterfuge for getting her out of that unit. But it gave Jones a good recommendation and offered another job at the hospital. Instead Jones left voluntarily to work for a doctor named Kathleen Holland.

There were no more unexplained events at the San Antonio hospital. But, within a period of 31 days, there were eight separate medical emergencies among Holland's patients, one of which resulted in the death of a 15-month-old girl. Again Jones was involved in all the cases.

Why had the San Antonio hospital not acted to prevent this tragic sequel? According to Elkind, it was because its administrators were "fearful of a lawsuit and bad publicity. ". . .

I'm getting very tired of hearing that we must resign ourselves to high unemployment and the continued decline of our great industries. The present situation was not inevitable. Something can be done about it. And that's why this magazine has devoted steadily increasing attention to what's wrong with (and to what needs to be done about) our managers, workers, and investors. That's why in this issue you'll find the articles by Peter Barnes on the socialist entrepreneur, John Eisendrath on the brokering of stock and other commodity futures, Thomas Peters on the factors that make winning businesses and why the Harvard Business School isn't among them, and Jonathan Rowe's book review of Seymour Melman's *Profits Without Production*. . . .

Have you heard what the Florida Bar Association is trying to do to Rosemary Furman? Having spent years as a court stenographer and legal secretary, she learned that some legal tasks lawyers charge a lot of money for are really quite simple and could be handled by the average citizen if he was given some help in filling out the forms and a bit of practical advice on how to represent himself. So she decided to start a business providing that help, for which she charges $50. For that, the Florida Bar Association is trying to put her in jail. Have any of her clients complained? No, but, as she explained to *Newsweek*, "Every time I make $50 some lawyer loses between $500 and $5,000." Anyone who has practiced law, as I have, learns that many legal secretaries know more than their bosses, particularly when it comes to filling out forms, a task which is usually delegated to them anyway.

What is most outrageous about the Florida lawyers' persecution of Rosemary Furman is that they are trying to have the matter decided by a judge, another lawyer, so they can avoid a jury of laymen who might sympathize with Furman's efforts to save them money. . . .

Often laws are held unconstitutional on grounds of vagueness. But have you ever heard of a statute that was overturned because it was too precise? Well, an appeals court in—where else—California has done just that to a law that prohibits driving while one's blood-alcohol level is 0.10 percent or greater. . .

Even if all my efforts thus far have failed to convince you of the rising tide of snobbery in America, perhaps I will succeed with this news: In November the organization that keeps track of Britain's titled nobility will publish *Debrett's Texas Peerage*. This will be the first of a series of ten volumes



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devoted, in the publisher's words, to "the untitled aristocracy of the United States. ". . .

A new part of that aristocracy was identified by Henry Fairlie in last month's *Washingtonian* magazine. It is the press, leading members of whom now earn incomes and enjoy social prestige that would have astounded the journalists of just a generation ago. The latest illustration is the purchase by Ben Bradlee and Sally Quinn of a Georgetown house whose previous occupants include a granddaughter of J.P. Morgan. It has 19 bedrooms, ten bathrooms, two kitchens, seven fireplaces, a library, and tennis courts. Its cost of $2.5 million is, according to *The Washington Times*, "the highest price ever paid in Washington for a residence, breaking the record set earlier this year when Senator John Warner and his former wife, Elizabeth Taylor, sold their Georgetown house for $1.75 million. ". . .

You can't call Patrick Buchanan one of those mealy-mouthed conservatives. Take his column in August entitled "What matters in the world is force," in which he observes, "In the world in which we live, good will, good intentions, a spirit of compromise and a desire for peace add up to almost nothing.". . .

Our critics say that *The Washington Monthly* is often repetitive, exploring the same issues over and over again. They are absolutely right. We don't ignore the issues that we think are important just because we've written about them before. Like the jazz musician who seeks to give new life to old songs, we keep our focus on the important issues by trying to write about them more artfully, with more illuminating examples, with new facts relevant to the issues, and with fresh analysis of those facts.

Last month, for example, I wrote that my worst fear about the economy is that, as some recovery occurs, "the old mindless greed will reassert itself. As profits grow, what should happen is that instead of rushing to raise wages, salaries, and dividends, industry should emphasize keeping its prices at competitive levels with our Asian and European friends and on making sure our plants are modern enough to produce the best products. "

Soon after I wrote those words, an article by an economist named Paul London appeared in the Outlook section of *The Washington Post* that said the same thing. But London also said more, building upon the point in a way that I believe justifies its repetition. Here is part of what he wrote.

"The major American auto companies have told their dealers that they can expect car prices to rise when the new models are introduced in September. General Motors has taken the lead, indicating that it will probably increase prices by an average of more than 2½ percent. All the companies are reducing rebates and low-cost financing arrangements, while raising the prices of most options.

"If the patterns of earlier years are repeated, analysts say, additional price increases will follow during the year, even though the auto companies have just announced second quarter profits totaling $1.8 billion, including $1 billion at GM alone.

"Instead of accepting this in silence, the public should be urging the auto companies to lower prices and profits, and to join in a national effort to improve the country's competitive position. In similar situations, Japanese companies have always chosen to go for higher volumes of production, a bigger share of the market, and more jobs instead of higher profit margins.

"Yet no consumer organization, no blue ribbon group of financiers and bankers, no labor union, no defender of the poor, and no representative of the Federal Reserve Bank of the Reagan administration has suggested that auto price increases now might hurt America's effort to retain industrial jobs and compete more effectively with the Japanese in the U.S. market.

"There is something bewildering about this silence when auto company profits are rising, unemployment remains high and middle class car buyers are still suffering from 'sticker shock. ' This would seem to be an excellent opportunity for American companies to regain a larger share of the market lost to Japan in the 1970s."

London goes on to recall the testimony of the late Walter Reuther, then head of the UAW, before a congressional committee in 1958:



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"He urged auto companies to cut prices instead of raising them, and to derive their profits from increased sales instead of higher markups. He promised that if they would do so, he would curb the wage demands of his members. Even then, before the era of fierce foreign competition, Reuther figured that higher volumes of production, made possible by reasonable prices, would create more jobs. To Reuther this was as important as higher pay for those already working. He saw that growth was the key to prosperity and job security for his members and the country."

That's the kind of leadership we desperately need in both labor and management today. It's the kind of leadership the rest of us must encourage by writing and talking about the issues involved until the entire country is aware of the problem and determined to meet it. These problems are worth that kind of attention and, where they are concerned, I think we must continue to risk being charged with repetition. . . .

If you share my respect for the shrewdness of the Swiss and my concern about our reliance on the M1 tank, you will not be comforted to learn that the Swiss have decided to buy West Germany's Leopard 2 tank because it is, according to *The Washington Post*'s Fred Hiatt, cheaper than the more sophisticated M1 and performed better in trials. . . .

In a reform that has stunned Washington bureaucrats, the Air Force has changed the name of its uniforms. Men's Combination 3 is now called Dark Blue Shirt. The Field Utility Uniform will henceforth be known as Fatigues. . . .

One reason that poor legal secretary is being tormented by those Florida lawyers came out during this year's convention of the American Bar Association. Where there were 250,000 lawyers in 1960, there are now 622,000. The figure is expected to rise to 750,000 by 1987. "We may be reaching a point where the number of lawyers are more than we can handle," said Gary C. Huckaby, former chairman of the ABA committee on delivery of legal service. "I think we ought to warn students there might be some potential danger."

Let us all join in helping Mr. Huckaby spread the alarm among present and potential law students. The more who can be saved for genuinely productive work, the better. In the meantime we must be alert to all the little tricks our brothers and sisters in the bar are capable of pulling when legitimate legal work is in short supply.

One such device is keeping nonlawyers like the Florida secretary from competing. Another device is filing suits of dubious merit. Still another is charging excessive fees when they do succeed in getting a case. The Rand Corporation Institute for Civil Justice has found that of every dollar paid because of asbestos litigation, 76 cents went to lawyers.

Of course, the main tactic in these situations is to keep the meter running as long as possible. "It used to be that settlement of a dispute was the first road a lawyer would take," Huckaby said. "Now settlement is the last road we take."

Closely related to this tactic is having several lawyers in a firm involved and billing the client for work that one lawyer can do. "They travel in packs," said Huckaby, and according to *The Washington Post*'s Fred Barbash, added, "sometimes the sole function is for one to pat the other on the back after he sits down."

Recently this magazine was involved in a legal issue that had not even reached the lawsuit stage, but, when the other side's lawyer arrived at our office for a preliminary discussion, he was accompanied by two associates. As our discussion dragged into the second hour the meter seemed to tick louder every minute as I realized that the legal cost was already mounting to the point where their client was going to have to get some substantial concession from us to justify to himself the fees he was going to have to pay the lawyers. I kept trying to bring the discussion to a brisk conclusion—once I even rose from my chair to escort them to the door—but they just continued to sit there. Finally they left, but my misery was not relieved. They were from one of Washington's poshest firms and when they departed, it was by chauffeured limousine. . . .

—*Charles Peters*



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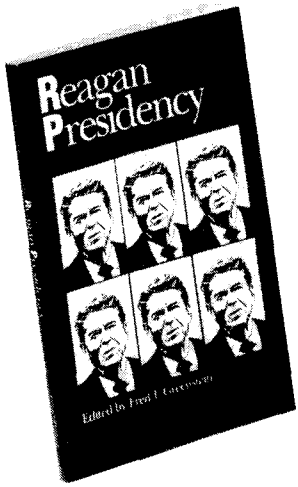
# *Appraising the President*

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*edited by Fred I. Greenstein*

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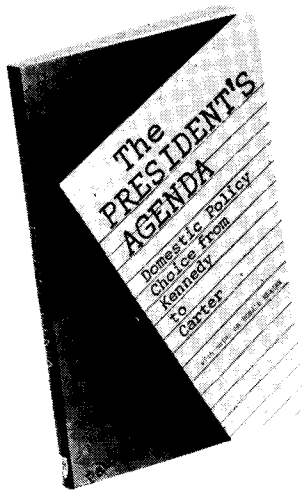


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# The Forgotten Virtue of Voluntarism

*by Kathleen Kennedy Townsend*

For a friend who lives with her family in a town of 700 people in Maine, volunteering comes as second nature. As a solo legal practitioner, she takes on many pro bono cases. Her husband is a volunteer fireman, her father-in-law an active member of the grange. A grandfather teaches drama in a school where a group of parents has undertaken a drive to increase the number and quality of books. A group of women in town regularly visit the elderly who still live at home. When I ask my friend how many people in her town volunteer, she looks surprised. "Everyone does, " she says. "We are a community, " her husband adds. "We are getting to know everyone, and helping out where we can. "

That's the way it should be, for voluntarism represents one of America's best traditions. Yet start looking around today for the people celebrating the notion, and a rude shock awaits: they all seem to be Republicans. Reagan has called voluntarism "an essential part of our plan to return government to the people. " An endorsement of voluntarism was a plank of the 1980 Republican party platform; it didn't even rate a mention in the Democratic party platform. The National Organization of Women recently was on record in opposition to volunteering by women in such fields as health care and social work because it was "exploitive " and reinforced traditional sex roles.

The attitude many liberals have about voluntarism perhaps is best illustrated by what happened this year when the federal government asked the state of Massachusetts to submit nominations for an outstanding volunteer award. An obvious choice from the Governor's Office on Human Resources was a woman who had spent almost all her time working on behalf of the homeless. But her name was not submitted. When I asked why, the official charged with sending in nominations replied, "I don't want to give Ronald Reagan the satisfaction of being right. "

Liberals clearly have let the conservatives steal the cause of voluntarism for their own partisan purposes. There might be some justice in that if

*Kathleen Kennedy Townsend works for the Governor's Office on Human Resources for the state of Massachusetts.*

Photo courtesy of the United Way



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Reagan and his friends really meant what they said. But Betsy Bloomingdale serving meals on wheels? Jerry Zipkin emptying bed pans? If they and Reagan's other wealthy friends have taken the president's call to heart, I've somehow missed it.

What I have seen are the long, snaking lines of men and women who wait outside Boston's already overcrowded soup kitchens. I've seen the de-institutionalized mental patients who camp out in Lafayette Park, within easy view of the White House. And I remember a legislative hearing I recently attended in which a mother appeared with one of her three children and described how they'd been living all that year in a car. A legislator asked where her two other children were and was told they were living with their grandmother. "Why don't you move in with them?" the legislator wondered. "She lives with us in the car, " the mother replied.

While all the recent rhetoric about the virtues of voluntarism is welcome, the performance of the Reagan gang is truly cause for cynicism. The president has slashed projected spending for domestic programs by more than $100 billion, with the cuts falling twice as heavily on the poor as on the rest of us. He has tried to abolish VISTA, the federal government's domestic volunteer program, and he has let the Peace Corps languish. No federal office has been set up to help recruit and train the hordes of enthusiastic citizens supposedly ready to enlist in Reagan's private version of the War on Poverty, though the administration has produced a glossy brochure filled with quotes extolling voluntarism. Even some conservatives are embarrassed by Reagan's paltry efforts. Richard Cornuelle, former executive vice president of the National Association of Manufacturers, has caustically observed that the President's Task Force on Voluntary Initiatives has done little more than compile a data bank on successful volunteer efforts—"at least the sixth such data bank. . . I know of. " Little wonder that the president's critics see his call for voluntarism as a smokescreen to justify devastating budget cuts that, combined with the recession, have made the plight of the poor more desperate that at any time in recent memory.

## *FOOLISH PRIDE*

Voluntarism, like all noble ideas, attracts its portion of the smug and hypocritical. The stereotypes are familiar: Lady Bountiful, beaming with self-righteousness, dishing out thin soup and a little religion to the down and out; the wealthy matron caricatured by Thomas Wolfe who holds an opulent ball to "provide jobs for the unemployed"; the professional charity bureaucrat who works out of a plush, mahogony-walled office and exemplifies what Dickens once called "telescopic philanthropy"—a concern for the poor that increases in direct proportion to one's distance from them.

Unfortunately, in their distaste for these stereotypes and Reagan himself, many liberals have dismissed the virtues of America's long-standing tradition of voluntarism. That each of us bears some personal responsibility to care for society's weakest members and serve our communities is a fundamental tenet, not only of our civic tradition but of our Judeo-Christian heritage. It is a responsibility that cannot be discharged simply by contributing to impersonal bureaucracies, either through taxes or giving to



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the United Way. The essence of voluntarism is not giving part of a surplus one doesn't need, but giving part of one's self. Such giving is more than a duty of the heart, but a way people help themselves by satisfying the deeper spiritual needs that represent the best in all of us.

So if Reagan is an amiable hypocrite about voluntarism, his liberal critics have not proved themselves much better. Had the president not cut a penny from the federal budget, the needs of the nation's disadvantaged would still be unmet. Indeed, though the circumstances clearly call for a mass mobilization of volunteers to meet those needs, so far Reagan's critics have been dismayingly silent.

There are many reasons for that silence. One of the biggest is the liberals' instinctive support for the 14 million people who work for state, local, and federal governments, six million of whom belong to public employee unions. As the head of the state's volunteer office in Florida puts it, "There's never a program in which volunteers aren't seen as a threat by public employees." Several years ago in North Carolina, for example, teachers and their unions strongly resisted an effort to recruit volunteer tutors, fearful that they would displace full-time employees. And in New York City, the Transport Workers Union recently ordered a group of neighbors to cease and desist in their efforts to scrub down a filthy subway station; if the union didn't do the work, the citizens were told, it couldn't be done at all.

A second explanation stems from the women's movement. Many feminists believe that women should measure their quest for equality by a familiar standard—how much money they earn. Volunteering is thus viewed as exploitive, something no self-respecting modern woman should stoop to.

An older friend of mine who has volunteered all her life has noticed the change in women's attitudes. "I can hardly get anyone to help me now," she complains. "They are either out making money, or if I do find someone willing to help she wants to get paid as a consultant." When I asked another friend about voluntarism, she quickly replied, "I think it's terrible. I want to get paid for what I do. I want people to value it. And money is the only way anybody will think it's important."

The liberals' failure to embrace voluntarism can also be explained by their preference for professionals with academic credentials. This preference had its origins in the late 19th century with the "professionalization" of such jobs as being a lawyer, doctor, and civil servant. (See "How the SATs are Ruining the GNP" by Nicholas Lemann, December 1981.) In the field of social services, the phenomenon blossomed during the War on Poverty, when the term "caring professional" became popular. Schools of social work flourished. People with problems became cases; lots of them became case loads.

With professionalization came the attitude that it was better to have a paid employee who "knew what he was doing" than several well-meaning, but uncredentialed, volunteers. The job of nurse's aide—filled largely by volunteers before World War II—became a profession in its own right. Mothers who taught kindergarten were replaced by college graduates with degrees in child psychology. "It's better to rely on experts so it's done right," one friend matter-of-factly explained when I asked about volunteering.

Closely tied to the bias for professionals is the liberals' belief that it is always better to help the needy through government programs than through what is disparagingly called "charity." For many liberals, this was the lesson of the New Deal, and the belief in the superior compassion of government has fueled the steady increase in publicly funded programs. Government has grown accordingly; in 1960, for example, the


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Department of Health, Education, and Welfare had 59,000 employees; in 1980 it had two-and-a-half times that number. And as taxes have steadily risen, more and more citizens have felt they've done their charitable duty just by paying for larger government programs.

Another explanation is hardly unique to liberals: selfishness. Many of my friends don't volunteer, and they have no shortage of explanations. I'm too busy with my job or my family. I gave to charity. I do my part for the poor by opposing tax cuts. My job—be it as a lawyer, journalist, or government employee—already helps the needy. I'm intimately familiar with these excuses—at some time I, too, have used every one of them.

Indeed, at a time when Americans probably enjoy more leisure than ever before, the charitable impulse increasingly has been channeled into substituting money for time. Writing a check to charity once a year or simply paying one's tax bill is viewed as comparable—if not superior to—spending an evening a month in a soup kitchen. People ask the United Way or the government to do their caring for them, freeing them to do whatever they want—like watching TV or taking a long vacation in Nassau.

Finally, many a would-be volunteer is thwarted by a foolish pride that passes for heightened sensibilities. I remember when I was 12 years old walking up three flights of narrow, poorly lit stairs in a Washington tenement to help deliver a Christmas turkey, stuffing, vegetables, and a bag of toys. After a little boy greeted us at the door, his mother quickly came, thanked us, took the packages—and then we left. The entire exchange took less than five minutes. I still recall the vaguely embarrassed feeling I had as I descended the stairs. Were they resentful of our good fortune? Had we made the mother feel inadequate because she had not provided for her children? Were our motives for volunteering pure, or were we just trying to soothe our guilty consciences? Good questions, but ones that could also easily be enlisted to rationalize not making further trips into the ghetto.

## *GROCERIES ON WHEELS*

These really aren't reasons for not volunteering—they're excuses. And they look even flimsier when you consider how desperately the nation needs a rebirth of the volunteer spirit. Indeed, for those who truly care about a just and compassionate society, voluntarism isn't just a good idea. It's absolutely essential.

Get off the highway that skirts the ghetto, venture into an institution for the retarded or mentally ill, visit an Indian reservation—it won't take long to see how much work remains to ensure a decent life for all Americans. Or survey a typical scene in any large American city. The streets and city parks are littered with trash and broken glass. The public schools are often so bad its graduates might just as well apply immediately for unemployment. Residents triple-bolt their doors and stay inside in mortal fear of crime. The elderly pass their days in solitude, alone in their houses and apartments or surrounded by indifference in nursing homes.

The staggering need for the services volunteers can provide is suggested by just a few statistics. One out of six high school graduates—almost half a million a year—is functionally illiterate. More than 23 million adults are in the same predicament, but John McKallip, director of field services for Literacy Volunteers of America, estimates that his organization and all others reach less than 1 percent of them.

As for health care, between now and the year 2000, the number of Americans over 65 will increase by one-third to 35 million. Many are predicting the imminent bankruptcy of Medicare, as the nation's health care bill will rise from $332 billion to more than $800 billion within the decade if current trends continue. Those responsible for public safety are also overwhelmed. In 1948 there were 3.22 police officers for every violent crime reported in America, while today the ratio is 0.5 to 1. As a result, criminals often commit dozens of offenses before they're caught—if they're caught at all.

How volunteers can transform this bleak picture is limited only by the imagination. Volunteers can tutor children victimized by bad schools and incompetent teachers; in Washington, D.C., recently, 1,200 volunteers participated in an intensive campaign to help several thousand students in the public schools meet stiffer promotion standards after they'd initially failed them. Tutors can also help adults; Literacy Volunteers of America, for example, has 12,000 volunteers helping 17,000 functionally illiterate men and women who cannot read or write above a sixth-grade level. Volunteers can patrol neighborhoods to help regular police officers prevent crime, as 8,000 of them are doing in New York City. (See "Why I Walk the Beat," page 52.)

The needs of our growing elderly population offer perhaps the most opportunities for volunteers. Some tasks are obvious, such as



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# NEOLIBERAL CONFERENCE

*For almost 15 years* The Washington Monthly *has been challenging the doctrines of both the right and the left, putting together a view of the world that we find fresher, more pragmatic, but also more idealistic. During that same period, others have been gravitating toward a similar view, which has come to be called "neoliberalism."*

*We think it's time to assemble the faithful as well as the skeptical to share ideas, to argue, and to get to know one another. Toward that end,* The Washington Monthly *will hold a conference the weekend of October 22 to discuss the nature of neoliberalism and its future. The subjects covered will include economic growth, entitlement programs, national security, education, and a number of matters conventional liberals tend to avoid—patriotism, entrepreneurship, religion, credentialism, patronage and democratic accountability, and how to pull the plug on the politics of selfishness.*

*Participants include Governor Bruce Babbitt, Mancur Olson, Ken Auletta, Robert Reich, William Greider, Senator Gary Hart, Michael Kinsley, Kathleen Kennedy Townsend, James Fallows, Amitai Etzioni, Dr. Robert N. Butler, Senator Ernest Hollings, Nicholas Lemann, James Capra, Morton Kondracke, Robert M. Kaus, Alan Baron, Taylor Branch, Justice Richard Neely, and Senator Bill Bradley. The critics will be led by Irving Kristol. Charles Peters, editor of* The Washington Monthly, *will chair the conference. Everyone—Democrat, Republican, Libertarian, or just plain undecided—who is interested in neoliberalism and its possibilities is welcome.*

*The conference will be held at the Sheraton International Conference Center in Reston, Virginia, near Dulles Airport and a short drive from Washington, D.C. It will begin with a reception and dinner on Friday, October 21, followed by a full day of meetings on Saturday the 22nd, and a final breakfast on Sunday the 23rd. The cost for the entire conference is $250 (including dinner Friday, panels and lunch Saturday, brunch Sunday, and two nights' lodging); $150 for two days (one night's lodging with either Friday dinner or Sunday brunch, plus Saturday panels and lunch); and $50 for Saturday only (panels and lunch).*

## NEOLIBERAL CONFERENCE

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visiting the elderly in nursing homes and helping provide medical care in their own homes. There are also many not-so-obvious jobs for volunteers. A Charleston, West Virginia, man recently formed a volunteer service to deliver groceries to seniors who find it difficult to leave their homes. Members of a labor union in California donate their time to perform repair work in seniors' homes.

Education, health care, and helping the elderly are just a few areas where volunteers are needed. There's plenty of other work as well, from cleaning parks and subway stations to working in libraries, homeless shelters, and half-way houses. How great is the need for volunteers? Consider this: a crash program to teach just half the nation's illiterate adults to read and write could occupy four million volunteers for each of the next five years.

## *THE VOLUNTARY MYSTIQUE*

The staggering job ahead makes the reluctance of liberals to embrace voluntarism all the more dismaying, and the necessity of overcoming these obstacles all the more important. Start with the instinctive opposition of public employees and their unions to voluntarism. Tensions between paid professionals and volunteers will always exist. Local taxpayers might decide to save money by volunteering to perform government services, thus displacing paid professionals. In such cases, there may be no loss to the public in the services it receives, though of course the public employee loses a job. A community in dire financial straits might have no other choice.

So we can expect wariness on the part of the public employees to any large infusion of new volunteers in government. But public employees, and the rest of us, should appreciate the immensity of the work that needs to be done. Perhaps in the distant future public employees will find themselves fighting with volunteers for scraps of work. For the foreseeable future, however, there's room for all the paid employees we can possibly afford as well as all the volunteers we can get.

The real threat to public employees' livelihoods is not volunteers but lost tax revenues. But that's all the more reason public employees should not fear volunteers, but welcome them with open arms. Volunteers are also voters, and as more of them flock to the schools, the nursing homes, the libraries, and the neighborhoods of their communities, they'll see for themselves just where more services are needed. The volunteer tutors in North Carolina who were initially opposed by teachers are now among the school system's greatest supporters. And in one Massachusetts town, a woman who was highly critical of police response time was offered a volunteer job as a dispatcher; she now is one of the department's most outspoken enthusiasts.

At levy elections, volunteers can sometimes be responsible for *saving* the jobs of public employees. If you're a mother of three who's struggling to get by, it's one thing when a paid teacher on summer break comes to your door and argues for more money for the schools. It's quite another when someone who's donating his or her time as a tutor makes the same case. About the only employees who won't benefit from the scrutiny of volunteers will be those who prefer to keep their light workloads and long lunch breaks hidden from public view.

As for the opposition of many women to voluntarism, it's critical to separate our praiseworthy quest for equality from the mimicking of the worst attributes of men. The long-standing exclusion of women from all but a few professions was wrong and self-defeating for all of us. Yet many women's search for equal opportunity has led them to denigrate such traditional pursuits as family and volunteering. This attitude lay behind NOW's resolution against voluntarism. It also shows in the many women who believe they can find fulfillment and earn the respect of others only by having a well-paying job—even if they don't enjoy the work and their



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family doesn't need the money.

This is doubly tragic because the unthinking pursuit of money and respectability—until recently, largely a male obsession—has sapped the nation's strength. It has forced many of our most talented people into vocations of little or no use for the rest of us, and fostered selfishness and narcissism. Whenever possible, men *and* women should try to do what satisfies them most. This not only means that women should continue to volunteer; perhaps more important, it means that men should volunteer much more. And rather than reject voluntarism, women should see its revival as an opportunity for leadership in areas in which they've long excelled—not just caring for family, but caring for others as well.

Some feminists have already reached this conclusion. Betty Friedan, in her 1981 book entitled *The Second Stage*, calls for a "new passionate voluntarism" that will revive a "uniquely American strength and female tradition." According to Friedan, who founded the National Organization of Women, the "polarization between feminism and voluntarism" exemplified by NOW's 1971 resolution "was as false. . . as the [feminists'] seeming repudiation of family. " She adds, "Voluntary organizations will be the only way to promise the services essential to further social change and the living of equality, now that it appears we will have to rely less and less on government agencies and the courts. "

## *THE SUNDERED SOCIETY*

The bias towards professionals must also be overcome. In the social services, as in all walks of life, the standard for evaluation should be performance and not the possession of credentials. Of course, volunteers must be used effectively by being placed in jobs they already know or which can be easily taught. As for those volunteers pledging to commit themselves full-time for several years (as with the Peace Corps) or part-time over the course of their lives, they are worth a substantial investment in training.

Even more important, liberals must stop viewing government as the caretaker of first resort. The Great Depression graphically demonstrated that the government must bear ultimate responsibility for ensuring that the basic needs of America's citizens are met. Herbert Hoover, who epitomized the Progressive era's enthusiasm for voluntarism, is credited with saving nearly ten million lives through the food lift to Russia that he organized as a private citizen shortly after the bolshevik revolution. But after the Great Crash, Hoover's exhortations to businessmen to voluntarily keep their employees on the payroll, and his pleas for more volunteers to assist the poor, proved tragically inadequate.

However, many modern liberals are no less wrong than Hoover in the lesson they've drawn from the New Deal: that government should always deliver basic services. Roosevelt himself understood the limits of government action; while his administration assumed responsibility for providing jobs for ten million unemployed, it largely left other needs—a place to stay for the night if your landlord evicted you, a hot meal if you just arrived in town looking for work—to volunteers and private charities. This tradition continues in many places today. In Massachusetts, for example, two-thirds of the shelter beds for the homeless are provided by private groups and staffed largely by volunteers, and Governor Michael Dukakis has been a leader in encouraging this tradition to continue.

Photo courtesy of the United Way

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Photo courtesy of the American Red Cross

Liberals must also recognize a related fact: that sometimes it's better to help the needy through volunteers than through government agencies. That was vividly brought home to me this summer during two separate visits. The first was to a boarding home for the elderly poor in Dorchester, Massachusetts, which received most of its money from the government. Dozens of men and women crowded together on couches or folding chairs in a dimly lit room that smelled of urine, dirty bodies, and ammonia. In one corner a black-and-white TV flickered; the aides stood off in a corridor, talking among themselves. I smiled and shook hands and tried to talk with about a hundred people, but only five returned my greeting. Though an aide told me they had just completed a summer celebration, there wasn't a trace of gaiety in the place.

All of these people enjoyed the "basics of life"—food, shelter, even "professional" help. Still, something was clearly missing, and what that was—love and an appreciation of people's unique qualities—became clear when I spent an afternoon at Rosie's Place, a shelter for homeless women in Boston run by Kip Tiernan.

Tiernan stands about 5 feet, 3 inches, and the day I spoke with her she wore a man's cap over her short, grey hair, a cross around her neck, and baggy khaki pants. The home was bright and cheery; a local decorator had donated bolts of curtain material, and the walls, though bulging with age, were fashionably decorated with light-blue and white printed flowers. The wooden tables were clean and polished, and there was fresh coffee and just-baked chocolate chip cookies. Kip made me—as she does all the women who stay there—feel welcome.

Tiernan neither solicits nor accepts government money. Budget cuts have made the plight of the homeless worse, she says, but her experience with the indifference of government officials has also made her wary of their cures. "Government only funds fashionable projects; you can't rely on them, " she says. Better to rely on the commitment of friends and concerned citizens, she believes, and it is they who keep Rosie's Place going.

Perhaps the most striking thing about Kip Tiernan was the contrast she provided to the aides I'd met at the other home. Tiernan, who was anything but sullen, clearly has found her calling. "It's great, because I get to do what I want to do, " she says. "People should enjoy what they do. I don't like the long faces that some people put on when they come to help the poor; poor people want to have fun too. " And at Rosie's Place, they also seem to have some dignity.

Tiernan illustrates another virtue of voluntarism liberals often overlook: that what is received often is as valuable as what is given. During the summer of 1968 I spent several months on a Navajo Indian reservation. In the morning we tutored summer students in English; in the afternoon we made adobe bricks, stomping around in a pit of mud and horse manure up to our knees and then squishing the mixture through our fingers to achieve the right consistency. We also planted pistachio trees. The bricks were intended for a science center, while the pistachio trees were part of an experiment to determine whether an industry that had proved successful on Israeli kibbutzim would work on the reservation. And in the evenings, a group of Princeton students (who also belonged to the SDS) tried to induce their Indian students to take up the cause of Red Power and draft a constitution.

The adobe block structure still stands. The trees died within five weeks of our departure; no



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one watered them. The constitution was never written. When I returned home later that summer, I was stymied as to what could be done. Many of the Indians wanted to retain their own traditions. Yet I realized that their doing so might mean continued poverty for many and rates of tuberculosis, infant mortality, and teenage suicide far above the national averages. Modern industry, though lowering an unemployment rate as high as 50 percent, would threaten to destroy the culture. Even "Red Power" and a constitution was in a sense alien to a people who were accustomed to settling disputes in night-long conversations.

It was a frustrating experience. And as I left, I worried that the Indians felt that once again an Anglo had come and gone at her convenience, lacking the patience and the dedication that these difficult issues required. They were right. Still, it is too easy to discount this kind of summer. Each of us who'd volunteered had a chance to meet a culture far different from our own, and to appreciate the complexities of the problems the Navajos faced. We learned to be suspicious of all simple and easy solutions, especially if they were proposed by people who lacked first-hand experience.

I'm also reminded of a friend who volunteered as a counselor in a camp for the mentally retarded who had been assigned a little girl who constantly hit her and whose vocabulary was limited to "shut up" and "go away." Each day my friend returned home utterly exhausted, and often humbled. Yet by the end of the summer, Caroline could say "love" and hugged my friend goodbye when she left. "There wasn't a day when I didn't wonder if I could do it," she told me. "But as she learned to dance in a circle, jump on a trampoline, and use a crayon, we became a team. It amazed me. And by the end, I knew that the experience had been as special for me as it had been for her."

This virtue of voluntarism—putting those from one world in direct contact with those from a completely different one—is one that was well understood by reformers of a different era. Jane Addams, who founded Hull House in the late 19th century for the poor immigrants of North Chicago, deliberately recruited upper-class, college-educated women as volunteers to give their lives more purpose by exposing them to the plight of those from a different class. And Jacob Riis, whose 1890 book *How the Other Half Lives* chronicled the misery of the nation's slums, called for a massive volunteer effort with this observation: "It is precisely in the sundering of our society into classes that have little in common, that are no longer neighbors, that our peril lies. A people cannot work together for the good of the state if they are not on speaking terms."

In speaking to others, of course, what one hears is often different from what one expected. I'm reminded of another friend who went into Harlem prepared to commiserate with the residents about the need for more food stamps and better health care, and instead heard mostly complaints about crime and the need for safer streets.

## *A REBIRTH OF COMMUNITY*

The final obstacle to overcome is far and away the most important. In recent years politicians, journalists, and others have offered disturbing evidence of the fragmentation of American life:

*(continued on page 48)*

Photo courtesy of the American Red Cross

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# MEMO OF THE MONTH

Memorandum

Department of Fair Employment and Housing

Date: July 7, 1983

To: All Public Programs Division Staff

Due Date:

Subject:

From: Betty Reader
Deputy Director
Public Programs Division

According to researchers and students of human nature:

1. "Work" is one of the three most important "categories" of human activity. (The others are our "relationships" with others and our individual "aloneness" - which could be translated to mean our relationship with our own self.)

2. A period of change or transition is a period of potential uncertainty. It can cause any one of us to experience self-imposed tension and even unnecessary stress.

If these assumptions are correct, it would seem logical that we should each do everything possible to eliminate the uncertainty that can cause us to feel tension in our workplace, during a period of change.

Good communication can be the basis of a satisfying work environment. It helps us to establish effective work relationships and to eliminate uncertainty. To facilitate the communication process I would like to accomplish several things:

1. Talk with each of you during the next several weeks;

2. Ask that you provide me with a written summary of your current assignments and the status of your projects, etc.;

3. Establish a master calendar of events, deadlines and priorities for each section under our division;

4. Have you share some of the work and personal experiences that have developed your skills and current career goals;

5. Review your resumes;



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6. Encourage you to explain problems and areas of difficulty with current work assignments and projects so that I have a clear understanding of what you believe needs attention and potential solutions you may have in mind; and

7. Share with you, some of the diverse experiences that I have had, so you are more familiar with the kind of things I have done in the past.

To facilitate your understanding of my current time frame, I think it is very important to note several things. First, I had an "official" two day notice to transition from my previous job to this position. Therefore, I have had very little time to prepare in terms of reviewing materials.

Second, I had very few materials, relating to our division, available to review until July 1. I am still missing significant basic data, including a "complete" current personnel list for our division and the duty statements that go with them. (I have only four duty statements at the present time.)

Third, there are several priority issues that take "some" precedence over other important projects currently, because we face immediate deadlines on these items. It will be necessary for me to focus on such priorities, diminishing the time I have available to do many other things I consider important as well.

With these factors in mind, please be assured I will make every attempt to meet and talk with each of you as soon as possible. If you have projects, items, or concerns that need immediate attention, please advise me or Cynthia Bracey.

I believe we all function best in a positive, supportive work environment where we are each able to develop mutual respect for coworkers and work at a job that gives us a sense of self-fulfillment in the "work" category of our human activities. Mindful that we each have areas of strength and weakness, I look forward to working together in a beneficial manner that:

- Allows us to efficiently conduct our individual responsibilities;
- Effectuate program goals; and
- Experience personal career growth through the refinement of current skills and the development of new work skills and tools.

I am confident that these goals can be accomplished if we each adhere to one of the philosophies that our department was established to protect and promote - namely - to maintain an objective, supportive, broad perspective by giving each person an equal opportunity to achieve in our work environment.

BR:wpc

cc: Mark Guerra
William P. V. Garcia
Calvin McGee



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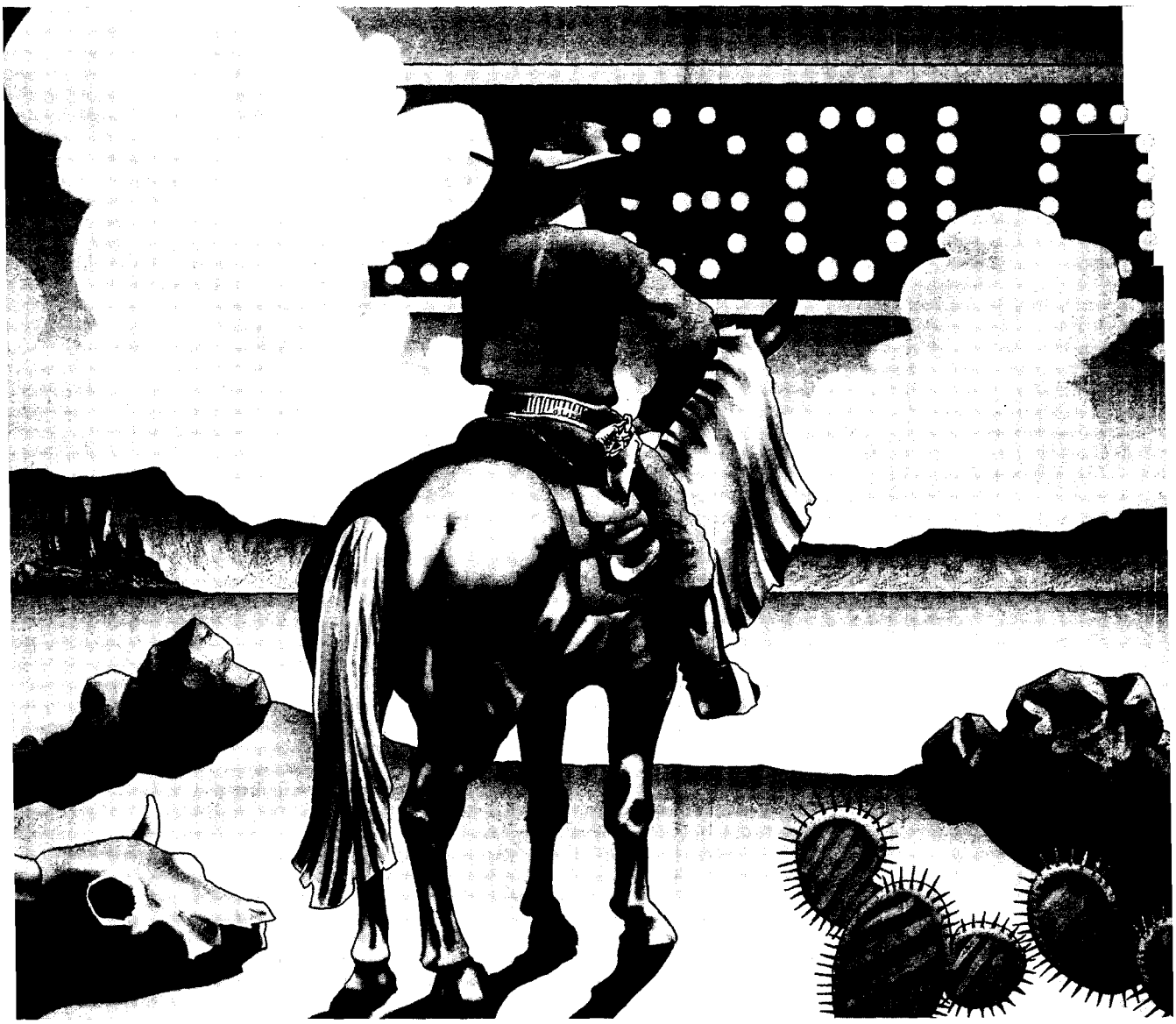
# DEAD END on La Salle Street





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## BY JOHN EISENDRATH

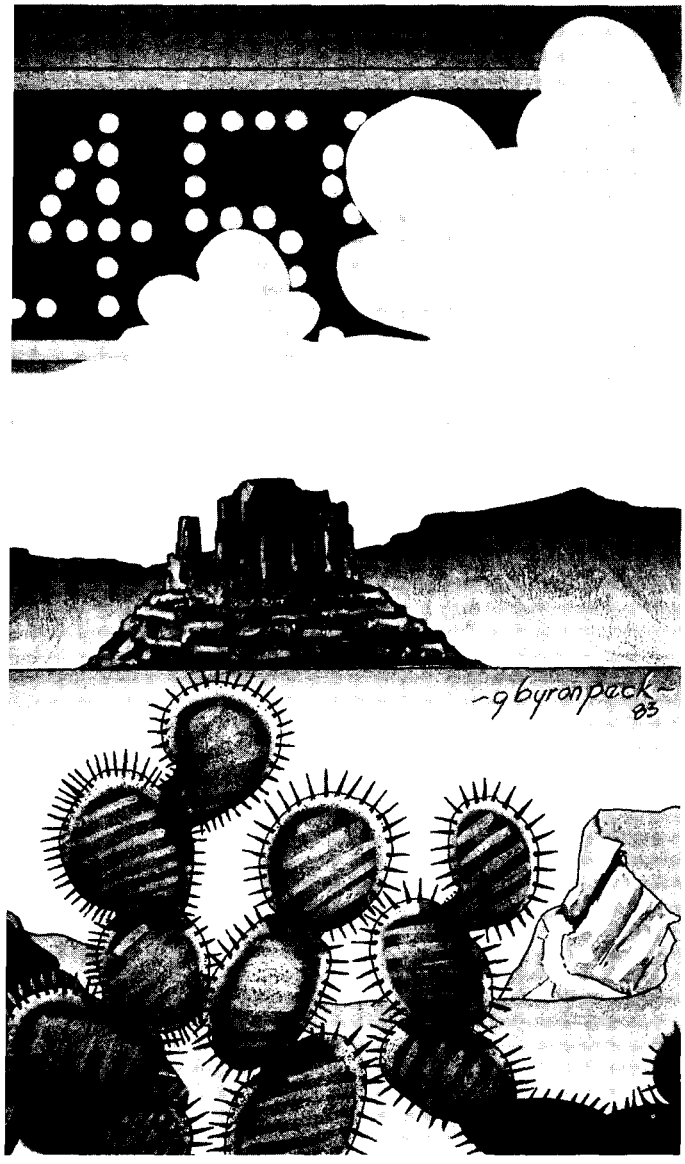


Illustration by G. Byron Peck / Egly Associates

In the movie *Trading Places*, there is a scene in which a hip vagrant, played by Eddie Murphy, is about to become the head of a Philadelphia firm that speculates in "futures." In the cherry-paneled, Persian-rugged opulence of the firm's inner sanctum, the owners explain to Murphy how futures speculation works. The street kid catches on right away. "I get it," he says, "you guys is bookies."

That description of the booming commodities industry captures the heady risk-taking that goes on in the commodities pits as well as its dubious social utility. Commodity trading is an industry that has boomed amidst the economy's bust. Trading volume on the 11 exchanges around the country increased from 58 million contracts in 1978 to more than 112 million in 1982, and industry analysts are anticipating another doubling in volume by 1985. In Chicago, where three-fourths of all futures trading occurs, the largest growth has been in financial futures—futures contracts based on financial instruments like Treasury bonds and Treasury notes whose price fluctuates with changes in interest rates, as well as contracts based on stock indexes (see sidebar, page 26). While pork bellies and soybean meal are still traded, futures are more than just a farmers market now, as Citicorp, Goldman Sachs, and every other New York financial institution clamoring to get into the futures markets will attest to. To hear one commodity trader tell it, the financial center of the country is rapidly shifting from Wall Street to La Salle Street.

Hang around La Salle Street long enough and you begin to understand why he may be right. Unlike Wall Street, futures markets thrive on adversity. Inflation up? Fine. Uncertainty? Even better. What these markets need—and perhaps what the players in the market need—is volatility. In other words, if La Salle Street ends up supplanting Wall Street, it will mean the economy has gone down the tubes.

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*John Eisendrath is a staff writer for the* Chicago Reader.



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Although the people who play the numbers games in the futures markets are risk-takers, the markets themselves, paradoxically, are like insurance—their primary function is to reduce risk. They arose out of the wild price fluctuations that plagued American agriculture a century ago. Lacking their own storage facilities and needing cash to pay their bills, farmers would bring their entire crop to market as rapidly as it could be harvested. When there were huge surpluses, prices plunged. The unlucky farmer whose timing was wrong could end up bankrupt, even with a bumper crop. But if crop supplies began to run short, there was panic buying and prices skyrocketed. It was a windfall for the farmer, but the consumer suffered.

To protect against this feast-or-famine cycle, a system emerged that allowed both producers and consumers of agricultural goods to hedge against the chaotic prices. By buying a futures contract—a promise to purchase a fixed quantity of a certain good at a fixed price during a certain month—and later selling it, businessmen could protect themselves against rising prices of commodities they planned to purchase. By reversing the procedure—selling a futures contract and later buying back an equal and offsetting contract—others could protect against a decline in price of the commodities they owned.

Here's a textbook example of how the markets work. Say Company X operates a large cattle feedlot in the Midwest. The cattle are fed and sold under a contractual agreement with a meat packer at an agreed-in-advance price. The major risk Company X faces is a possible increase in the price of the several thousand tons of corn it must purchase to feed its cattle. A sharp increase in the price of corn—like the one that resulted from last summer's drought—could wipe out the company's profit. By buying futures contracts for the quantity of corn needed, the owners know roughly what their feed costs will be before they contract with the packer on a selling price for the finished cattle. Not only does this assure the company a profit, it also keeps the price of beef down by enabling the company to agree to a lower selling price for its cattle.

Useful as this hedging function is—and in today's uncertain economic times it is extremely useful—insuring against disaster is a far cry from preventing it. "The purpose of the futures markets is to cushion the blow of the bad economy, " says Richard Sandor, the man who invented financial futures. "The markets themselves will do nothing to correct what is wrong."

That might not be so bad if it weren't that an increasing number of those who might otherwise be correcting what is wrong with the economy weren't so tied up with cushioning the blow. In the past three years the membership at the Chicago Mercantile Exchange has gone from 1,250 to 2,000; at the Mid-America Exchange there are 1,205 members, five times more than a decade ago. All told there are almost 6,000 commodity traders in Chicago. While many critics of the commodity industry voice legitimate concerns about regulatory problems, about the potential for another Hunt-like debacle, and about the drain on capital caused by excessive speculation, there seems to be a more alarming problem—the drain on human capital. Call it a perversion of Adam Smith: some of our biggest risk-takers are now in the insurance business.

## "WE NEED INFLATION"

Of course, it doesn't look like the insurance business. Most commodity trading goes on in the pit—a place so filled with pandemonium that there is no preparing for it. I grew up in Chicago and have known about the pit all my life, but when I recently stepped into the octagon-shaped area where bond contracts are traded, I was still unprepared. By 7:59 a.m. more than 300 people—mostly men in their mid-20s—have wedged their way into the bond pit and are standing toe to toe in the pastel-colored jackets traders wear to identify the clearinghouses through which they trade. When the bell sounds at 8 a.m., signaling the start of trading, the pit explodes. The people in the pit become a blur of hand-signaling and arm-waving; everyone is screaming.

To understand the dynamics of the futures business, to know how money is made and lost, you have to know who's doing all the screaming and why. In the pit there are both brokers—whose job is to fill orders for outside customers—and speculators (called "locals"), who trade only for themselves. The locals' function is to provide a liquid market for all the Company Xs that need a hedge against uncertainty. They provide a ready market of buyers and sellers to take the opposite side of the hedger's orders. The big hitters are known as position traders. They take a position and sit on it—betting on long-term trends, not minute-to-minute fluctuations. Such fluctuations


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are the bread and butter of a second type of local—the scalper. Scalpers, who comprise the majority of locals, make hundreds of small trades each day, trying to take advantage of the constantly fluctuating price of the market. Then there are the spreaders—traders who take advantage of shifting relationships between different commodities or between different delivery months of the same commodity. A spread trader may simultaneously buy March corn and sell May corn, hoping to make money on the price difference. Or he might buy Treasury bonds and sell Treasury notes, to make money on the price difference. This is the most complex form of speculating—and the fastest growing. Spreaders and scalpers, unlike position traders, don't care if the market goes up or down. They can make money—sometimes a killing—as long as the market moves. Says one scalper: "We need instability and we need inflation."

In the bond pit the subject of the screaming is long-term Treasury bonds. One bond contract is worth $100,000. In trader parlance each contract is called a "lot." Some traders trade a lot at a time, some ten at a time. The really big traders—usually position traders—deal in 100 and 200 lots. For trading purposes, each lot has been divided into increments of $31.25. These are called "ticks." When the market moves in the bond pit, it does so in $31.25 increments. So if you hold one contract and the market rises ten ticks, you've made $312.50.

The market rises and falls on the basis of bids and offers of the traders in the pit. In one respect this fluctuation represents the distillation of a lot of economic information. All around the pit, TV screens display what is happening around the world; any announcement or event that might affect a given commodity is quickly relayed into the pit and translated into a higher or lower price. In the bond pit, for instance, the only real lull during the six-hour trading day comes each morning at 10:30 when the Federal Reserve makes its daily announcement about the money supply.

There is another side to the fluctuation in prices, however, one that you can see only from

## The biggest game in town

The biggest crap shoot around can't be found in Las Vegas or Atlantic City. You'll find it in the commodity pits, and it's called the stock index futures.

Skeptics have long considered commodity trading little more than a rarified form of gambling. After all, they argue, only 4 percent of all commodities traded are ever delivered—the rest are bandied about like so many chips at a poker table. The traders' response is that what's important is not how many garages are filled with pork bellies, but that every trader's garage *could* be filled. Back in 1905, Justice Oliver Wendell Holmes pondered this argument in a case before the Supreme Court and sided with the traders. What distinguished commodity markets from casinos, Holmes felt, was that there was an actual obligation to take or make delivery of the commodity being traded, even if that obligation was completely academic to most of those who bought and sold the contracts.

The introduction in 1982 of something called stock index futures would have made Holmes think twice. In this case, traders aren't buying and selling carloads of oranges and sorghum to be delivered at some point in the future; rather, they are betting on the movement of a group of stocks. If you think the stock market is heading higher, but you are not sure about any one stock, you can play out your hunch by buying one of the four stock index futures contracts now trading. (The most widely used is Standard & Poor's 500 index, traded on the Chicago Mercantile Exchange.) If you guess correctly you're paid in cash.

The lure of the crap shoot worries a number of corporate executives. J. Peter Grace of W.R. Grace complains that stock futures "will tend to shift individuals from long-term investors, where they are greatly needed, to speculative traders." Such speculation, says Lee Iacocca, "will not result in any additional basic investment in plant, equipment or research and will not create one new job." Their fears seem to have been realized: in a year and a half the Standard & Poor 500 index has become the fastest-growing futures contract in the commodity industry's history.

Happily, there is at least one convenient and effective means at hand to moderate the speculative orgy. It is called margin control. Today, to buy $1 million in stock, you must put down $500,000 in initial margin. To buy $1 million in stock index futures, you need to put down only $100,000. No wonder futures, rather than stocks, have become the modern growth industry for speculation.

The difference in margin requirements is a result of political, not economic, history. In 1934 President Roosevelt proposed raising margins on both stocks and futures, invoking the unregulated speculation that preceded the 1929 crash.

Congress followed FDR's advice and raised securities margins, but refused to raise margins in the futures markets. The result is today's speculative boom. If we raised the margin for stock futures to 50 percent, however, we could cool the speculative fever that is diverting capital from stocks to stock futures.

And if the boys on La Salle Street won't play along? We'll threaten to abolish stock index futures altogether.

*—John Eisendrath*



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a pit's-eye-view. This side doesn't concern overall trends in the market, but the minute-to-minute changes on which most people in the pit make a living. In this respect what matters is not Paul Volcker but something more instinctual and more subjective. It is the ability to think fast and act decisively. Says one trader: "I listen to the economic information, but I don't really play off it. Good pit traders, they look at this stuff, but when they're in the pit and they're making up their minds as to what's going on, they only look at who's stronger, the buyers or the sellers."

In addition to having the confidence that allows them to risk a lot of money on a split-second decision, good traders must constantly deal with another factor: fear. As one trader put it: "When you're long 50 contracts—and in bonds that means you're risking fifteen hundred bucks every time the market hiccups—you start thinking not about the money you're going to make, but what am I going to do if I lose; where am I going to get out? That's all you think about. It's the pit-trader mentality."

Of course, you wouldn't have to think about getting out if you weren't already in. This, too, is part of the pit-trader mentality: a desire to live on the edge, to constantly be at risk; to chance losing $1,500 on a hiccup. Good traders know that sometimes, many times, they will lose. They accept this as fact and don't panic when the market moves against them. Some do panic, but they don't last very long. No one lasts in the pit if he panics. If you panic you're gone—and so may be your house, your car, and just about everything else.

## SECRETS OF A FURNITURE SALESMAN

In the insular world of commodity trading, Richard Dennis is considered something of an oddball. Even if he hadn't lasted 12 years in a business where 80 percent of the people go belly up and the ones who don't often take the money and run, and even if he were not a liberal Democrat in a sea of conservative Republicans, the traders in the pit would know about Richard Dennis.

In a business filled with risk-takers, Richard Dennis is the biggest risk-taker of them all. He is the consummate position trader. Unlike the scalpers who are constantly buying and selling, Dennis takes a position and holds it—for a day or a week or even a month. Last year Richard Dennis took the right positions: he made more than $40 million.

Like almost everyone else in his profession, the 34-year-old Dennis, a big, thoroughly disheveled man with an unassuming manner, grew up in Chicago. And, like most of his successful colleagues, he has three qualities essential to a good trader: discipline, fierce independence, and, in his business life, a total indifference to the welfare of the economy. About the first two attributes, he explains: "The market is a battle of wits, a test of wills, a rorschach for the way you discipline yourself. It is very solipsistic."

It is also brutally objective—a fact which necessitates the third attribute. "The market is a phenomenon you try to analyze and not wish around," says Dennis, who makes his decisions based on a complex program that he relays to the 13 brokers who work for him in every pit from wheat to gold (Dennis himself no longer trades from the floor). In recent years his analysis has told him that the economy was going down the tubes and that there was a lot of money to be made on the recession. "The conditions which cause the markets to thrive are symptoms of problems in the economy," he admits. "The Treasury bond contract would be dead as a doornail if there was no debt and inflation was 2 percent."

Despite the fact that he profits from its problems, Dennis is a man who seems to think a great deal about the welfare of the economy. "The whole push of society for the last 50 years has been to reduce risk for everyone—with Medicare, welfare, Social Security. Everyone wants to limit their risk. We've developed the illusion of the riskless society. It's everywhere—the unions, the big corporations. It's security. Everyone wanted it and to a certain extent we've got it. But security has had its costs—in rules and regulations and in its effect on those who wanted to take risk. There are fewer places for those kinds of people today. One place is here. It's a lightning rod for those who don't like the risk-free society."

Talk with enough traders and you will find they agree with Dennis. For them this is the last outpost of capitalism. They see the wooden pits in which they stand as a place to make an honest buck; as a haven from a world of confused rules and regulations and a place that is quintessentially democratic. Just put up your money and start; it's a lot like leasing a taxicab. Ask anyone why they have chosen trading as a career and the



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discussion invariably turns to what is wrong elsewhere.

George Tomlinson, who left the ceramic tile business to come to the Chicago pits: "It's so clean and neat here. I wanted to work for myself. It's a long tough road out there. This is more streamlined."

Peter Gallagher, who worked as an accountant before coming to the pits in 1975: "The reason people come down here is because here aggressiveness and hard work pay off—there are immediate returns. Life is clear down here. The purpose is to make money. There are no bureaucratic hierarchies, no offices, nothing."

Think of it: no offices, only a closet to hang your jacket. No secretaries, no memos, no management, and no indication of who is making it and who is not. There are no unions and there is no security—a trader can go to work in the morning and, unlike almost anyone else, come home at night poorer than when he woke up—a lot poorer.

What's unfortunate is that the risks taken by those would-be entrepreneurs aren't being made in the sector of the economy where they'd do the most good—the industrial sector. More and more we look upon producing goods as grubby and uninteresting. As economist Robert Samuelson has noted, Americans have developed a predator ethic which now rivals our producer ethic. In this sense the trading pit and Washington, D.C., are not such strange bedfellows; so it should come as no surprise that when Dennis surveyed the economic landscape recently, trying to find a suitable investment for $5 million in loose change, he didn't opt for the stock market—an investment that might provide companies with capital to help retool their plants. Nor did he decide to bankroll a business of his own that might produce something. Dennis chose instead to start up the Roosevelt Center, a think-tank in Washington.

## "INTIMIDATE THE MARKET"

The traders in the pit do not generate their own trades—they do not make money off of each other. Almost all of the trading is initiated by brokers filling orders for outside customers who are using the market to reduce risk. Of the more than 300 people in the bond pit each day, for example, about 100 are brokers. The traders are there to provide the liquidity necessary for the broker to fill his order.

A broker must have many of the attributes of a trader. His job is much more than filling orders—it is sensing where the market is going and getting the best price for his customer. Brokers have longer life spans than traders because they have less liability. Still, a good broker can make as much as half-a-million dollars a year.

One of the biggest and best brokers in the bond pit is Scott Mistretta. While most brokers fill ten- and 20-lot orders, Mistretta rarely handles orders for less than 200. He is a glamorous broker, a market maker, someone everyone in the pit keeps an eye on. In a business where proximity to a broker can mean the difference between making and missing a trade, some traders arrive in the pit at five in the morning so they can get close to Mistretta when he walks in as the bell sounds at eight.

While the screaming and gesticulating and the pushing and the shoving go on unabated throughout the trading day, it reaches a pitch whenever Mistretta uncrosses his long arms and enters the fray. Again, the law of the pit is the law of supply and demand, and traders' decisions to buy and sell are based primarily on how strong or weak the demand for a commodity is in the pit at a certain price—if the demand is low, the price offered for the commodity will fall. Since Mistretta is one of the largest single buyers and sellers, his position directly affects the positions of others. When Scott Mistretta screams, traders in the bond pit listen.

Mistretta knows this and uses it to his advantage. "There's a lot of psychology involved in the pit," he says. "I may not want to do anything, but I make it look like I want to do it to intimidate the market." This comment has more meaning than first appears. The futures markets are justified by the notion that through the invisible hand of the market a fair price is established for a given commodity. Yet, as Mistretta candidly admits, that hand is not so invisible—and as the markets continue to grow it may be even less so.

Mistretta dropped out of high school in 1976 and was working in a gas station when a friend of his father's gave him a part-time job as a runner in the pits for $60 a week. (Today if you offer Mistretta $10,000 a day to be your broker, he'll say he will have to think about it.) In this sense too the markets are an anachronism: they are a place where credentials are meaningless.

Another broker in the bond pit, Robert Grif-


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fin, got the credentials his father and grandfather never had, and discovered they were worthless in the pit. Griffin grew up in Cicero, Illinois, a middle-class suburb of Chicago where, for some reason, many traders grew up. His father worked for Commonwealth Edison for 46 years. Griffin went to business school at the University of Chicago and then to work in the research department of the Chicago Board of Trade, the oldest and largest commodities exchange. That was in 1975, just when financial futures were beginning. Griffin became the expert on the new contracts. He knew everything there was to know about them—except how to trade them. When he went into the pit he got creamed.

"I had all these academic credentials and when I first got down here I was told I knew too much. One guy took me aside and said, 'See that guy over there? He used to be a furniture salesman. He's going to do a lot better than you are.' And you know what?" Griffin says, "He did."

The reason is that the only smarts you need on the floor are street smarts. If you can play the ticks, sense the market's direction, and remain calm even when one wrong move may mean being wiped out, you can thrive. The good traders may not be a venture capitalist's dream—but they're close: they are willing to scrape and claw their way to the top. "Good traders," says Griffin, "have a very blue-collar attitude. These are the people who used to come over from Europe and set up the tailor shops—old-fashioned businessmen."

So this is what has become of yesterday's entrepreneurs? Perhaps. Yet while their temperament may be the same, I suspect that in one very important sense these people are a far cry from the old-fashioned businessmen Griffin was talking about. The boys in the pits don't want responsibility. They don't want the burden of putting out a product or of employing others—they don't answer to anyone and they don't want anyone answering to them. Remember the buzzwords: "clean" and "neat" and "clear." There is nothing clean and neat about a tailor shop—or about most of the businesses that we could use more of today.

When I suggested to Griffin that perhaps there are enough contracts being traded and enough boys in enough pits trading them, and that the rapid growth in the industry may be siphoning off valuable capital—both in minds and in money—he said that the mere fact that people used the markets justified their existence and their growth. "What we should do," he said, "is write the government a note, saying 'Our justification for this contract is that people use it. Sincerely, the Chicago Board of Trade.' " The sad thing is, I think he was perfectly sincere.

Ray Cahnman isn't in the pits much now. He runs one of the clearinghouses at the Board through which all traders must operate. He spent five years in the pits, however, and when he was there he was one of the best—the personification of Griffin's blue-collar ideal.

"He was so disciplined and aggressive," Griffin says of Cahnman. "He would trade every minute of every day, even after he became wildly successful—very much a millionaire. He would still desperately fight with other traders—even for the one lots. He fought with guys one one-thousandth of his size for every tick."

Cahnman didn't start trading until he was 30. "I got out of grad school [in business] at 24 and out of the Army at 25," he recalls. "I was almost 26 when I got my first job. For four years I just bummed around and tried various things. I tried real hard and I got nowhere." He worked for a bank and for a computer time-sharing company. He was even a tennis pro. Then a friend told him about commodity trading. "When I came down here I found out this thing was only a game, and vowed that no matter what, I was going to make it. I didn't spend any money from that day on. If I found empty bottles, I would turn them in and get the 2 cents. I saved everything I could. I made a total commitment that I was going to get this thing. I didn't care how long it took."

From 1979 to 1981 Cahnman traded more in terms of volume than anyone in the bond pit. He

**One trader describes why he likes the commodity pits: "There are no bureaucratic hierarchies, no offices, nothing."**



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estimated that during that time he accounted for one in every five trades—an amazing number considering that in 1981 alone more than 13 million bond contracts were traded. Cahnman's specialty was—and, when he trades, still is—spread trading. Spreading, remember, is that peculiar breed of trading that involves, among other things, playing different commodities against each other.

All these facts relate to what struck me most about Cahnman today. What I noticed—watching him on the floor, in a morning strategy meeting, and in discussions with other traders—was that if futures trading is indeed a game, then Ray Cahnman is a man who knows all the rules. When you talk with him you realize how complex the industry has become. You also realize the opportunities available to someone who can grasp this complexity. With each new contract, several different ways of spreading arise. Cahnman knows each technique and uses all of them. This is no less legitimate than scalping or position trading, but through its complexity, it raises an interesting parallel. In this sense the futures markets and traders like Cahnman, instead of being vastly different from the rest of the economy, are really just a microcosm of it. Like the economy, the futures markets have grown so complex that opportunities exist for tinkering. Commodity traders have taken advantage of these opportunities, joining the country's ever-growing maintenance crew—the people who have nothing to do with the inputs and outputs of society but are well paid and quite content just to fine-tune and to lubricate.

What's one to make of the people in the pits? They are interesting, certainly. And they lead exciting lives. Every journalist who writes about commodity markets finds the Ray Cahnmans and the Scott Mistrettas irresistible copy.

If you spend some time in and around the pits, however, and look beyond the money and the macho, you may come to see different conclusions. Although traders would be loath to admit it, the pit is not the last outpost of capitalism. Last year alone more than 500,000 businesses were started in this country, and in the 1970s more businesses were started than in any previous decade. Capitalism—and entrepreneurship—is just as alive and well outside the commodity markets.

Unfortunately, the *kind* of capitalism that's practiced often creates the barriers that send people into the pits for relief. One barrier is the increasing importance of credentials. Those who run American businesses, big and small, often will take in a young partner or manager only if he or she has an MBA—and a prestigious MBA at that. Robert Griffin got a prestigious MBA and found it was worthless in the pit. The reason? Business schools teach people how to become bureaucrats, not entrepreneurs—something many American businesses today think is just fine.

Another barrier is the cost of entry. There just aren't that many businesses today that you can start for $5,000—an amount that could lease you a seat on the Board of Trade and let you take your chances at becoming a millionaire. If you're a nobody and you need a modest amount of capital to start a business, chances are you're not going to get it. Large banks prefer to lend in large lots, cutting down their own paperwork; those with venture capital are lured by flashy proposals that promise quick, high rates of return.

In the commodity business, you don't need that capital—but if you did, you'd probably get it anyway, since commodity traders are a banker's dream. With no overhead, and the chance of making a killing ever-present, commodity traders have easy access to credit at the Chicago banks.

Then there is the fact that a lot of the new businesses—many of them specializing in services—offer work that appeals to someone with the pit-trader mentality. It's hard to envision Ray Cahnman running a travel agency or writing computer programs—particularly since he worked for a computer time-sharing company before coming down to the Board and hated it. Over the next ten years the occupations with the largest percentage increase will be paralegal personnel and data processing machine mechanics. A lot of traders probably view the pit as an interesting—though treacherous—harbor in an extremely boring sea.

Still, one can't help think that in many ways those who descend into the pits are simply succumbing to the path of least resistance. Many of the reasons they give for being there are simply excuses; the fact is that many are drawn to the pits by the glamor and the complete lack of responsibility. Perhaps it is fitting that the boys in the pit are hailed as the entrepreneurs of the eighties, since it is to our growing streak of self-absorption that commodity trading caters. Damn the economy, full speed ahead. The predator ethic has arrived. ■



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# *WHO'S WHO in the Administration*

Little attention has been paid to the revelation that **Ed Meese** and **Michael Deaver** had $118,000 in loans arranged by their accountant, **John R. McKean**, right around the time that they had him nominated for the U.S. Postal Service Board of Governors. They got something of value—the loan. He got something of value—a government job in which he is paid $13,600 for 12 days' annual work. If that's not a violation of the United States Criminal Code, it comes awfully close.

Another story that has quietly slipped off the front pages is Debategate, and we've never found out who filched the Carter briefing book and gave it to Reagan's coaches. Why didn't the press track down the culprits? Our most informed sources guess the reason is that one of the guilty parties was **James Baker**. Baker just happens to be the number one source for the White House press, the last man they would want to get rid of. . . .

Last month we predicted that **Paul Laxalt** would be one of Reagan's campaign managers for the 1984 election. One reason that might not happen is that Laxalt used an investment in a casino as a tax shelter to avoid federal income taxes for five years. Another is that a number of his friends and contributors have mob connections, and it doesn't help that he looks exactly like the senator from Nevada in *The Godfather*.

Also last month one of our articles told you about **George Spanton**, the Pentagon auditor who had blown the whistle on Pratt & Whitney. He had the facts, but the Pentagon didn't want to hear them. So he was rewarded by a transfer away from his home and away from Pratt & Whitney. We're delighted to report that the special counsel of the Merit Systems Protections Board has now charged three of Spanton's superiors—**Charles Starrett**, **Paul Evans**, and **Arlin Tueller**—with illegal harassment. . . .

Last May, **Elizabeth Dole**, secretary of transportation, was talking about "proposing complete deregulation" of the trucking industry. She is not talking about it now, because while the White House may not be inviting **Jackie Presser** to East Room dinners, the Teamsters still have the muscle to get someone at the White House to tell Mrs. Dole to please shut up. Could it possibly be the man who made his first Washington call as president-elect on **Frank Fitzsimmons** at the Teamsters Headquarters on Capitol Hill?. . . .

## In

WHITE HOUSE
Assistant to the President and Chief Spokesman—**Larry Speakes** has been promoted from deputy press secretary.

Assistant to the President for Policy Development—**John A. Svahn** has been undersecretary of Health and Human Services.

COMMERCE
Counselor to the Secretary—**Clyde V. Prestowitz Jr.** has been assistant secretary for international economic policy.

HOUSING AND URBAN DEVELOPMENT
Undersecretary—**Philip Abrams** has been assistant secretary for housing.

LABOR
Undersecretary—**Ford Barney Ford** has been assistant secretary for mine safety and health.

TRANSPORTATION
Assistant Secretary for Policy and International Affairs—**Matthew V. Scocozza** has been a deputy assistant secretary of state.

AGENCIES AND COMMISSIONS
Member, Nuclear Regulatory Commission—**Frederick M. Bernthal** has been chief legislative aide to Senator Howard Baker.

Comptroller, General Services Administration—**Raymond A. Fontaine** has been assistant administrator for management, policy, and budget.

## Out

**WHITE HOUSE**
Special Assistant to the President for Religious Groups, Agriculture, and Women—**Dee Jepsen** is resigning to work on the reelection campaign of her husband, Senator Roger Jepsen.

DEFENSE
Member, Defense Resources Board— **Richard N. Perle**, assistant secretary for international security and policy, has been removed for repeated absences.

Acting Assistant for Health Affairs—**John F. Beary III** is leaving to become associate dean at the Georgetown University School of Medicine.

AGENCIES AND COMMISSIONS
Member, National Labor Relations Board—**Howard Jenkins Jr.** has asked not to be reappointed to another five-year term.

President and Member, Synthetic Fuels Corporation—**Victor A. Schroeder** has resigned.



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# GREAT EXPECTATIONS

## The real cause of revolution

BY VERNE W. NEWTON

There's a lot of heated debate these days about American policy in Central America, and to hear both sides tell it, there's an enormous gulf between the attitude of liberals and that of President Reagan regarding revolution in the isthmus. Don't believe it. There may be disagreements about where to send the 7th Fleet for maneuvers, and whether the U.S. should be bankrolling the overthrow of the Sandinista government in Nicaragua. But when it comes to revolutions, liberals and conservatives are in agreement: they hate them. Both agree that the best outcome for Central America—not to mention the rest of the world—would be to somehow put the revolutionary genie back in the bottle. What else is one to make of the strange alliance between liberal Mike Barnes and conservative Jack Kemp, cosponsors of a congressional resolution declaring that "stability in Central America is of enormous strategic importance to the United States"?

*Verne W. Newton was executive secretary to the Agency for International Development from 1977 to 1980.*

"Stability" is the key here, and both liberals and conservatives worship at its altar. They disagree only about what causes revolutions and how they can be prevented. And on both scores, the two sides have something else in common: neither is right.

The Reagan view holds that all Third World conflicts are mere footnotes to the great East-West superpower rivalry. Accordingly, the only antidote is for America to support those who say they hate communists, their records on human rights notwithstanding. This story line, of course, was explored to excessive but unrewarding lengths in Southeast Asia. Even with a new location and a largely new cast (but with a cameo appearance by Henry Kissinger), the reviews so far on Capitol Hill and among the public have been skeptical, and with good reason. True, the Russians and Cubans are meddling in Central America. But do the conservatives *really* believe all would be calm if the communists suddenly departed the scene?

The liberals have a somewhat more romantic view of what causes revolutions, but it's no less muddled. If Reagan's script is right out of *The*

Illustration by Roger Taze DeMuth



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*Alamo*, theirs is inspired by *The Magnificent Seven*: exploited, downtrodden peasants, pushed to the limits of human endurance by poverty and political terror, rise up against their murderous oppressors. And since liberals believe that instability in the developing world results from oppressed and deprived masses, it naturally follows that the logical antidote is to pour in foreign aid to eliminate poverty and illiteracy while promoting economic modernization and political freedom.

But listen more closely to what the liberals are saying. Senator Edward Kennedy's recent message to his daughter's graduating class at Tufts was that the "flames of revolution" in Central America had their origins in "long-smoldering embers of poverty and repression. " Walter Mondale boasts of how the Carter administration tried "peaceful solutions" in El Salvador, advocating human rights, land reforms, and working with the church and the "broad middle class" to "create an environment of stability. " Then there's this trenchant analysis from Senator Christopher Dodd: "If Central America were not racked with poverty, hunger, and social injustice, there would be no revolution."

Dios mio! If long-smoldering embers of poverty and repression cause revolutions, everything south of the Rio Grande should now be in flames. Haiti and Bolivia, where there is no revolution, are much poorer than Nicaragua. And in the repression sweepstakes, El Salvador doesn't hold a candle to Paraguay or Guatemala.

Doesn't Mondale realize that it was precisely Carter's human rights advocacy that helped destabilize such feudal regimes as Somoza's? Doesn't he know that the young generation of priests in Central America has been stirring the revolutionary caldrons for 15 years? And doesn't he know that it is from the ranks of the "broad middle class" that the barricades are often first manned?

There's a reason why Mondale and other liberals prefer to avoid these questions: the reforms they traditionally advocate in the name of "stability" often are the real *agents provocateurs* of revolution. This was the main lesson I learned in the nearly four years I worked in the Agency for International Development, helping to dole out several billion dollars a year to developing nations. In that time, I became convinced that if one were going to slap up "wanted" posters of the villains behind political unrest, such malevolent figures as Cuban military advisers, KGB agents, poverty, and social injustice would be only minor accomplices. The real culprits came in much more respectable guises: education and economic modernization, to name just two.

Both conservatives and liberals find it convenient to misunderstand the causes of revolution. I am unaware of a single revolution in which communist outsiders were anything more than supporting players; nor do I know of any revolution that spontaneously arose out of long-standing misery and despair, led by oppressed peasants suddenly taking up their pitchforks. The capacity of peasants and slum-dwellers to accept their miserable lot is, I've found, truly extraordinary. The first to the barricades are usually members of the middle and upper classes who, while prosperous compared to the bottom ranks, are angry at the deprivation they feel relative to what they think they are entitled to. It's not that they're tired of having so little; they're frustrated at not getting more.

Take the most recent unrest in Chile. During the economic boom of the 1970s, two-thirds of the voters ratified a constitution that allowed General Augusto Pinochet to postpone elections until 1990. Then the world recession sent the country into a tailspin. Demonstrators poured into the streets. Yet after the bloodiest day of rioting, leaving 24 dead, an eerie calm descended over the capital of Santiago. It wasn't the threat of police and tanks—the leaders of the protest decided to take advantage of a three-day weekend to go to their country villas.

That rising expectations often lie behind revolutions is hardly a new insight; it should be familiar to anyone who's taken a college survey course on Western civilization. And as observers from Alexis de Tocqueville to North Vietnam's General Giap have observed, the most perilous moment for a bad government is when it tries to reform itself. Yet however obvious these observations seem, many liberal policy-makers prefer to avoid them. Those who work at AID or the World Bank channel billions annually to the Third World, but are extremely uncomfortable with the question of whether their efforts prevent or promote instability. I remember what one senior AID official told me when I asked if any formal studies had been done on the question: never do a study if the results might be used against you.

Because these programs are represented as the thinking man's answer to revolution, foreign aid bureaucrats have as much incentive to admit that their activities promote instability as the Joint



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Chiefs of Staff have in admitting that their colossal expenditures on military hardware may actually undermine national security. Life is much easier when you imagine another Marshall Plan lurking in every new foreign aid proposal.

Let's look more closely at some of the real causes of revolution. Start with education. Find me a single liberal who would oppose improving educational levels in the Third World. Yet it is the educated elite in developing countries that usually provides the earliest and most vociferous agitators for change. That was certainly the way it worked in the American Revolution. In an age when few even dreamed of attending a college, 33 of the 56 signers of the Declaration of Independence were college graduates. And it was only after being educated in Napoleonic Europe's best universities that Simon Bolivar felt inspired to return to Latin America and kick out the Spanish.

I came to appreciate this phenomenon in 1965, when I was hitchhiking through Africa as a more-adventuresome-than-prudent 20-year-old from Iowa. At the time, the continent was filled with excitement and speculation about the New Men of Africa, many of whom had gone to school at Western universities and returned to lead the fight for colonial independence: Ghana's Nkrumah and Nigeria's Azikime (University of Pennsylvania), Tanzania's Nyerere (Edinburgh), Kenya's Kenyatta (the London School of Economics), and many others.

While traveling in the south of the Sudan, I was arrested in Juba, where Congolese rebels were using the area as a military base for raids on their homeland. At first I was allowed restricted movement around town, and I fell in with some young Sudanese rebels who had been educated by American missionaries and were fighting *their* government. These rebels somehow convinced me to travel with them to the Congo to plead with the American ambassador for military equipment. The plan came to an abrupt end when I was followed and re-arrested. That night one of my Sudanese co-conspirators slipped me a note in jail: since I could not join them in their mission, when I returned to the U.S. would I be so kind as to deliver his letter of application to Harvard?

Americans who volunteered for the Peace Corps during the early 1960s also sensed that knowledge could be a dangerous thing when it came to preserving the status quo. The education systems the colonial powers left behind in Africa were designed to turn out a nation of docile clerks. These schools emphasized rote learning and considered the question "Why?" nearly blasphemous. Peace Corps volunteers brought a different approach, encouraging their students to think for themselves and question their assumptions. Many of those assumptions, not surprisingly, involved the West and Marxism. In some countries where the Peace Corps was active—Ethiopia is a good example—those who led Marxist revolutions included many students who had been taught by these volunteers.

**While in jail, my Sudanese co-conspirator slipped me a note: when I returned to the U.S., would I deliver his application to Harvard?**

Indeed, in my experience it was often not the starving peasants with distended bellies who agitated for change, but the educated and bored young men in cities like Dakar, Abidjan, Manila, and Managua. Once when I was in Africa with former U.N. Ambassador Andrew Young, he told me that there were at least 30 American-trained Ph.D.s in the rebel camps of Richard Mugabe and Joshua Nkomo, fighting for the independence of Zimbabwe.

Education can also spawn changes that may not be violent but are no less jarring. Abdullah Tariki, for example, learned something he considered truly sublime while attending the University of Texas—how the major oil companies,



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working through the Texas Railroad Commission, manipulated the production of crude oil to keep prices artificially high. After returning home to Saudi Arabia, Tariki became known as "the father of OPEC."

Economic modernization also is often an enemy of stability, however much everyone sings its praises. The problem comes when those pressing for a greater realization of economic prosperity or security slam into the rigid walls of existing political arrangements. The resulting conflict is not between the rich and poor, but between what people expect and what they really get.

Iran under the Shah is a good example. From 1962 to 1973, Iran enjoyed a period of growth probably unequaled since the days of Cyrus the Great. Small industries flourished, bazaars and shopkeeper groups prospered, and there was considerable social mobility within the middle class. Living standards improved and women, especially, made great strides.

What changed the equilibrium in Iran was not the excesses of SAVAK's secret policemen so much as dashed expectations. With the quadrupling of oil prices in 1973, so much oil revenue began pouring in that the government started using some of it to compete with the private sector. This triggered deep resentment in middle-class merchants who felt they were being cheated out of some of their rightful gain. The recession in 1974-75, caused by a temporary drop in oil prices, led many middle-class Iranians to demand greater economic and political security. Combined with a strong backlash by Islamic fundamentalists against the Shah's rapid modernization effort, the resentments finally reached critical mass in 1979 and the Shah was forced to flee.

Economic modernization also lies behind some of the unrest in Central America and elsewhere in the world. Between 1945 and 1975, Central America enjoyed real per capita gains in income, GNP, and exports that were among the highest in the developing world. But after the OPEC oil shocks and the American-led recession among the industrial nations, wages plunged and inflation soared. Tight monetary policies in the U.S. also contributed; we often forget that what comes as a "love tap" to correct inflation here can be a knee-buckling shot to the head in countries that rely heavily on exports for economic growth. (Indeed, when I was traveling in Third World countries it was clear that host government officials were far more concerned with the economic policies of the Federal Reserve Board and Congress than with foreign aid.) As a result, throughout Central America the urban middle class saw its recently won prosperity vanish quickly. Businessmen—along with students and professionals—demanded sweeping political changes. The demands were met with flexibility in Costa Rica and Honduras but with repression in El Salvador and Nicaragua.

Economic modernization cuts both ways. If the strategy succeeds, it can result in a leader being hailed as a great statesman. The Shah, Pinochet, and even Somoza once enjoyed such accolades. But if the strategy fails, it can turn on a leader with a vengeance. Some Third World leaders accordingly have taken a different tack, believing that their political future is best secured by keeping their subjects in blissful ignorance of such matters as economic development and foreign aid. Zaire's Mobutu and Haiti's Duvalier are two who adhere to a not-uncommon principle of Third World political science: steal the money intended to benefit your countrymen, and preserve the status quo.

## LET POLAND BE BANKRUPT

Hannah Arendt observed 20 years ago that in the contest between the U.S. and the U.S.S.R., "those who understand revolution will probably win. " Fortunately for us, the other side has been equally inept. The Soviets, first and foremost, are as addicted as we are to stability. But while the U.S. policy is unilateral and global, the Soviet approach is only regional. The slightest hint of instability close to home—in Prague, Warsaw, or Kabul— quickly brings repression and tanks. The flames of revolution are fanned only in distant Africa and Latin America.

Many African governments, however, have learned that Soviet military hardware and pamphlets won't grow maize or run factories. In countries such as Egypt the Russians have been booted out as irrelevant to the serious job of nation-building; the Marxist governments of Angola, Mozambique, Ethiopia, and even Zimbabwe are now pleading for Western investment capital. One can imagine that somewhere in the Kremlin there are mid-level bureaucrats shaking in fear as the search goes on for "who lost Somalia. "

Indeed, in many respects the communists suffer the same delusions as to what causes revolution as American liberals. In 1959 Cuba organized the Granma Expeditions and exported cadres of middle-class students to lead uprisings in Venezuela; Panama, Haiti, Argentina, the



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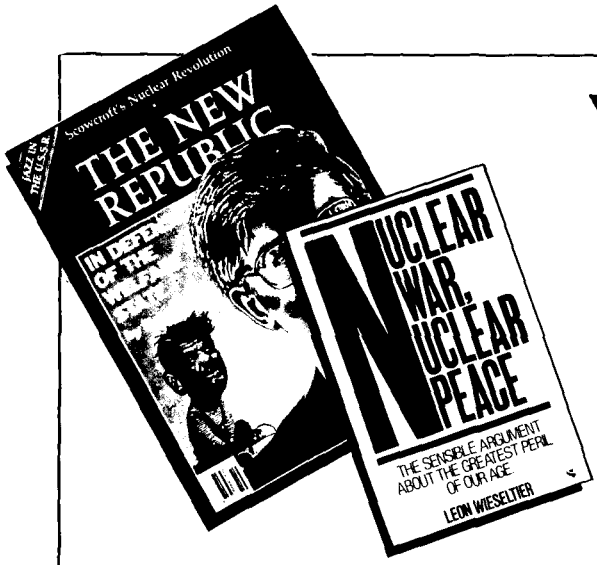


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Dominican Republic, and Uruguay. Into the mountains of Bolivia went Che Guevara to arouse the oppressed. But in none of these countries did hungry peasants and slum dwellers answer the call to revolution. Che himself met an inglorious death at the hands of the local militia, in this instance proving how wrong both the liberals *and* the conservatives were.

If it's stability in the Caribbean Basin that we're after, the United States shouldn't worry much about the Cuban government, which is performing an inestimable service by draining $3 billion a year from Soviet coffers. Rather, we should be worrying about the thousands of doctors, technicians, and teachers Cuba is sending throughout the Third World in an effort that puts our own Peace Corps program to shame. By promoting education and higher expectations among the poor, these volunteers may succeed where Guevara so miserably failed.

Two can play the destabilizing game, of course. Yet perhaps the most striking aspect of the "stability first" approach to foreign policy is how it extends even into the enemy's camp. It was America, remember, that headed off the greatest financial crisis in the history of the Soviet bloc in 1981 when conservatives and liberals alike worked frantically to prevent Poland's default. That country was certainly in the throes of rising expectations, with Solidarity pressing for greater political and religious freedoms. Yet the U.S. not only prevented Poland's default; our efforts also helped rescue Romania and Czechoslovakia. This let the Russians off the hook by not forcing them to fork over to Western banks some of their scarce foreign currency.

While we were propping up the Soviet empire, they were doing what they could to bring chaos to our hemisphere. But I remember the reaction I got when I asked a former secretary of state (a Democrat) why we shouldn't let Poland default and do to the Soviets in Eastern Europe what they were doing to us in Central America. He looked at me as if I had just suggested a preemptive nuclear strike.

## LOUIS, LOUIS

Unfortunately, one cannot always control sudden social and political change, much less fine-tune it. If that were possible, the French Revolution would have ended bloodlessly in August of 1789 with the Declaration of the Rights of Man. But still to come were the September Massacres, the Reign of Terror, and the Napoleonic wars. In Iran the revolution would have ended with the appointment of Mehdi Bazargan in February 1979, and the liberals who called for the Shah's departure would today be walking tall and boasting of their roles. Instead they are silent, as Iran's young men, whose human rights were once such a cause celebre, are now cannon fodder for Khomeini's war against Iraq.

This is not to say violence is an inevitable outcome of revolution or an unavoidable cost of progress. American foreign policy should be unswervingly dedicated to ensuring that revolutions, when they occur, end in constitutional conventions rather than further repression, assassinations, or civil war. At the same time, liberals should not be so naive as to sell more political freedom, education, and economic modernization as an insurance policy against instability. In most developing countries, these reforms are the very stuff of revolution, capable of setting in motion powerful forces that may prove impossible to control. Liberals who seek refuge in platitudes about "peaceful revolutions" and "stabilizing social change" resemble the patricians who cheered Louis XVI's demise at the dawn of the French Revolution but then recoiled in horror when the riots began, disclaiming all responsibility.

One alternative, of course, is to embrace the conservative's traditional approach: ignore a country as long as its natives stay quiet, but lavish its government with military aid if someone shouts "communists!" When it comes to stability, the conservatives don't try to have it both ways. They have far fewer qualms about preserving order, even if it means the brutal repression of a country's citizens. If it's stability we want above all else, my advice is to put your money on the conservatives.

But that approach would force America to abdicate its hope of exercising some leadership in the developing world, and would betray our most basic principles. Far better to have a foreign policy which encourages change with the full understanding that its consequences may not always be to our liking. It is extremely difficult to promote progress without igniting instability and even violence, and it will require sophisticated thinking on our part to help channel unrest in the developing world to constructive ends. But such an approach would recognize some realities that liberals and conservatives prefer to gloss over, and in the long run may prove more capable of promoting the values elsewhere in the world that we believe in. ■



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# TIDBITS AND OUTRAGES

## Yeah, but he doesn't have to put up with Begin either

Edward N. Gulli, general manager of the State Department Federal Credit Union, earns $89,000 per year, or $9,000 more than George P. Shultz. Though the credit union has reported losses the last two years, Gulli and his top assistant traveled with their wives to a convention in Hawaii, threw a $2,395 reception (including $126 for mints) in Scottsdale, Arizona to attract more deposits from State Department retirees, and held a $2,520 dinner for a retiring credit union employee and 30 colleagues at a French restaurant. When asked by *The Washington Post* to justify his earning more than the secretary of state, Gulli replied, "I don't have a chauffeur-driven car or a plane at my disposal."

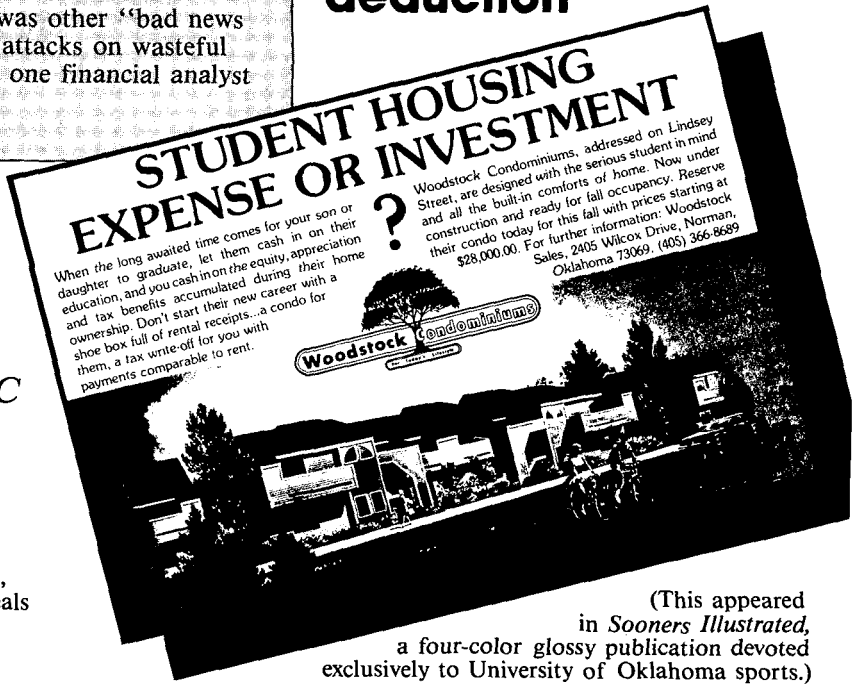
## Thank goodness they didn't sign an arms reduction treaty

*The Washington Post* attributed a two-day decline in defense and aerospace stocks to an announcement by John Tower, chairman of the Senate Armed Services Committee, that he would not seek reelection. Another cause of the stock dip was other "bad news on the political front, including attacks on wasteful defense spending," according to one financial analyst quoted by the *Post*.

## *WHEN IT WAS ALL OVER, I.M. PEI WENT BACK TO THE TRAILER PARK, PLOPPED INTO HIS BAR-CALOUNGER, AND OPENED UP A BEER*

When the "cultural elite" of the American Academy of Arts and Letters met in New York this May, *Vanity Fair* described the day's schedule, which began with a cocktail party featuring crudites, smoked salmon, steak tartare, escargot en creme, and cucumber scallops with creme fraiche and chives, as enough to "break the back of a day laborer."

## "Son, it's time we had a little talk about the mortgage deduction"




(This appeared in *Sooners Illustrated*, a four-color glossy publication devoted exclusively to University of Oklahoma sports.)

## *THEIR COUNTER-OFFER WAS TO LET HIM SIT IN FOR DOC SEVERINSEN*

Los Angeles TV news anchorman John Schubeck recently left KNBC over a dispute with the station's management. KNBC refused his demand that its parent network, NBC, guarantee Schubeck a number of deals for made-for-TV movies.



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# CONFESSIONS OF A SOCIALIST ENTREPRENEUR

**by Peter Barnes**

Seven years ago, at the age of 34, I decided to become a socialist entrepreneur.

It seemed like a logical calling to pursue. As a muckraking journalist, I'd flung my share of arrows at the big corporations, although I inwardly feared they were invincible because no one else could deliver the goods—the cars, stereos, bananas, etc.—we'd grown so accustomed to. If the left rejected corporate capitalism, I reasoned, we had to develop some workable alternatives—and a body of people who could carry them out.

I had also come to believe that revolution, in the apocalyptic sense, was not likely to occur in America in my lifetime, nor was it the proper way to transform American society. Rather, it seemed to me that democratic alternatives to corporate capitalism would have to emerge within the womb of capitalism itself, much the way capitalist institutions once sprang to life inside a withering feudalism. This might take decades, perhaps even centuries, but it seemed like the best way to preserve our democratic political heritage, and a realistic way for our economy to evolve.

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*Before he entered the entrepreneurial arena, Peter Barnes was the West Coast editor of* The New Republic. *He is currently a director of The Solar Center.*



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## We wanted to revive an aspect of ownership that is disappearing in modern capitalism—responsibility.

On top of all this, I concluded that I could never bring myself to hold a straight job. Ergo, why not create my own job? Or better yet, the kind of enterprise I would like to work for?

To be sure, I could see a few obstacles. First, there was my general innocence about business matters: I'd never deciphered a financial statement, much less met a payroll. Second, there was the matter of start-up capital, an especially sticky wicket when (a) you aren't rich, and (b) you believe that labor should control capital, not the other way around.

Finally, there was the question of how to embody noncapitalist values in the actual operation of a business. I liked to think of myself, quietly, as a democratic socialist, but I had only the vaguest idea of how democratic socialism might work in practice. I was not particularly attracted to most countries that called themselves socialist, nor was I an ardent believer in state ownership or centralized planning. My concept of democratic socialism was based primarily on a set of simple values: privilege is generally a bad thing, economic activity should be based on something more than maximizing the return on capital, and the workplace—where most people spend a half of their waking hours—should blend democracy with efficiency.

Could these values be translated into a business that would survive in a capitalist environment? I decided there was only one way to find out. So, along with five other like-minded souls, I started a business called The Solar Center. For start-up capital, we each chipped in $5,000. I took some basic business courses at a local community college and at the New School for Democratic Management—and into the void we headed.

In retrospect, our naivete in those early days was astounding. We thought we would sell a little of everything—solar greenhouse kits, do-it-yourself "breadbox" water heaters, photovoltaic toys, books—and that our biggest problem would be turning away thousands of solar enthusiasts who would beat a path to our door. We expected to rotate jobs and take a month off every summer to run rivers together.

As it turned out, our eager innocence was in many ways a blessing, for it spurred us through a myriad of obstacles that would have deterred even the shrewdest capitalist. We encountered endless corollaries to Murphy's Law, but stuck with every bug-ridden job until we made our customers happy. When well-meaning but muddle-headed public agencies issued rulings that interfered with reasonable ways to conduct business (for example, widely varying code requirements in neighboring communities, or a proposal to put the electric utilities into the solar contracting business), we fought city hall and Sacramento and usually won. When we needed more working capital than we, as employee-owners, could provide, we persuaded several kindly individuals to make unsecured loans totaling $70,000. When cash flow dried up, some of us went on unemployment and continued to work as volunteers.

In this stout-hearted, somewhat stumbling way, we led a kind of dream-like existence, working hard but exuberantly, playing and socializing after work, celebrating each other's birthdays, even rafting some spectacular rivers in the mountains of Idaho and northern California. Then, after about three years, the dream ended and the business began.

We learned that, despite our eclectic proclivities, the only way we could make a steady living was by concentrating on doing one thing, and doing it very well. At first the "thing" we did best was installing small solar water heating systems in the homes of affluent liberals. Then we discovered a market for larger systems—central solar water heating systems for apartment buildings—that made economic sense in urban and suburban San Francisco. Since these systems could be quite expensive, we pioneered several ingenious ways to finance them so that apartment owners would enjoy immediate savings. We quickly learned how to bid, design, and manage



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commercial-scale projects costing hundreds of thousands of dollars; how to use cranes and computers and sub-contractors and tax-shelter brokers. And our business grew.

Annual sales climbed to about $2 million. We moved from a small office and miniscule warehouse to an 8,000-square-foot building with drive-in access for our six trucks. By 1983 we had become a modestly successful business employing 25 people, all of whom were owners or on the track to becoming owners.

## Purging an owner

From the beginning, what most clearly distinguished our enterprise from traditional capitalist ones was ownership. While technically a stock corporation, our enterprise was founded on the principle that ownership should be tied to labor. We believed that people feel better about their work if they own and control their workplace—in short, if they work for themselves. We also wanted to revive another aspect of ownership that is fast disappearing in modern capitalism: responsibility. Most corporate stockholders today are passive owners. They buy their stock, sign their proxy cards, and hope for the best. Management pretty much runs the show. By tying ownership to the workplace we hoped to give owners the experience of direct responsibility, and managers the experience of direct accountability.

One error we made was to underestimate the importance of sharing risks. We had invested $5,000 apiece and countless hours of unpaid time. Newer workers—who hadn't made an initial investment—tended to want maximum short-term pay, while our eyes were focused on the long haul.

For several years we went back and forth about whether new employees should be required to make a cash investment in the business, and if so, how much. Eventually, despite much hesitation by employee-owners who had gotten aboard for free, we agreed on a required minimum investment of $3,000. This amount was substantial enough to help the business and to be felt as a risk by owners, but not so large as to be prohibitive. To make it possible for workers without savings to become owners, we established a payroll deduction plan that allowed the investment to be spread over two years.

This decision was a life-saver. It not only improved our balance sheet at a time when we were deep in the hole, it also brought us together in a way only shared risk can, and made the concept of common ownership more of a reality.

We also had to grapple with the problem of how, in an on-going business, new owners would be admitted and old owners disposed of. For the standard stock corporation, this isn't a problem: anyone can become an owner simply by buying stock on the open market and cease being an owner by selling the stock to someone else. Since ownership carries little responsibility or power, frequent turnover of owners doesn't affect the normal functioning of the business.

As a worker-owned business, we had to be more careful. On the incoming end, we needed to be sure that new owners were also good workers, and that they would not abuse the rights of ownership. On the exit side, we had to reward the investments made by owners without allowing our stock to be sold to absentee investors, or draining the company of cash. In between, we had to deal with the question of whether workers who were also owners could be fired.

In practice, our hiring priorities alternated, and the results were good and bad both ways. Many of our strongest people were, when they started, low on skills and high on commitment to the kind of business we were running. Perhaps our greatest success story was the very first person we hired: a 19-year-old woman, recently graduated from a Quaker high school, who began as an apprentice installer and four years later was running all our field operations and serving on our elected board.

Many skilled but nonpolitical employees quickly adapted to our structure, too. In fact, our general manager at one point was a Harvard MBA and veteran of several large corporations who adapted almost more than we wanted him to. We hoped for strong, decisive leadership; he moved slowly, out of concern for "process" and not hurting people's feelings.

After hiring new employees, the next question was how and when they would get to share in ownership. Initially, we established a probationary period of six months. As the business grew in size, it took longer for old workers to get to know new ones, so we extended the probationary period to one year.

Before an employee became an owner and made an investment, it was understood that she or he could be fired, but confusion persisted about whether the company could fire people *after* they became owners. In fact, we shared a strong bias against firing or laying off owners, partly because we believed in giving people a



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## What was more significant than the actual formulas was the sheer phenomenon of the debate itself. . .

chance to redeem themselves; partly because, as a worker-owned business, we felt more obliged to preserve jobs than to earn profits; and partly because we were simply afraid to fire people.

Over time, however, we came to accept that becoming an owner in a small, thinly capitalized business could not be a guarantee of lifetime employment, and that firing people directly—after honest evaluation and due process—was better than the inevitable alternative of firing them indirectly through "bad vibes" and pressure to resign. (Despite this recognition, when a longtime owner actually was fired this summer for not cooperating with the chief executive, spirits plummeted among some of the other owners. "We're just like any other business," said one. "Any of us could be next.")

To be sure, getting fired was rarely a reason for people leaving The Solar Center. But whatever the reason for departure, we still had to have a method for "cashing out" exiting owners without decapitalizing the business. We accomplished this through an Employee Stock Ownership Trust. When an owner leaves—voluntarily or involuntarily—the ESOT redeems his or her stock at its book value, but in monthly payments spread over several years, with interest on the deferred portion. This money comes in part from investments by incoming owners, and in part from the ongoing cash flow of the business.

## People before hot tubs

When we started The Solar Center, the founders had an idealistic sixties-type faith in "participatory democracy"—whatever that was. We ran the business this way for about three years, and it worked pretty well. For example, our single most critical business decision—to concentrate only on solar water-heating systems for apartment buildings, which no other firm was doing at the time—was made, after much discussion, by consensus. One key to this success was that our core group members were all dogged workers who trusted each other implicitly. Another was that we held policy meetings on unpaid "owners' time" after regular working hours. This preserved daily productivity and helped keep meetings short and businesslike.

Eventually, however, our consensual democracy began to break down. At staff meetings, an individual or a small minority would object to a policy or personnel decision, and prevent or delay the forward motion of the business. In daily operations, people who had responsibility for "getting things done" would feel frustrated by their lack of clear authority.

In retrospect, our experiment began to sputter after we added people with differing viewpoints and clashing ambitions—and got tired of so many meetings. Nothing ignoble was involved in this sputtering; it simply reflected our need for a more sophisticated structure that blended our democratic values with the way the center had evolved.

Towards the end of our third year, we embarked on what amounted to the writing of a constitution. It made me appreciate what the Founding Fathers had accomplished in Philadelphia; designing a system of self-government is no simple matter. We sought a permanent process to admit new owners and buy out old ones; to delegate authority to people who were elected by and accountable to the employee-owners; to distinguish between policy decisions, which would be made by the elected representatives or by all the owners, and administrative decisions, which would be made by managers; to prevent "tyranny of a minority," while assuring that consensus on major decisions would be sought before voting would occur; and to equalize voting power, regardless of how much stock people owned.

One legal vehicle we used to implement these goals was the ESOT. We required the company's stock to be entirely owned by the ESOT on behalf of the employees. Within the ESOT, all employee-owners were given separate accounts to hold both their purchased stock and additional "sweat"



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stock that would be distributed each year. Under our plan, ESOT-held shares carried voting rights (normally they don't), but each owner had one vote, regardless of the number of shares in his or her account. We would try to reach consensus on important decisions, but if consensus could not be reached after all views had been heard, a two-thirds majority, with no proxies, would prevail.

At the same time we changed our ownership and voting structure, we also streamlined our management and administration. Staff meetings became monthly instead of weekly. Twice a year, we had full-day retreats at which goals for the following six months were set and major issues were discussed.

At other times, direction of the company was put in the hands of an elected board, which hired (and could fire) a chief executive officer. The CEO, in turn, hired (and could fire) department heads, who were responsible for running their departments in accordance with overall business objectives. Our operating philosophy became: If someone is responsible for getting something done, she or he must have the authority necessary to carry out that responsiblity.

These changes were adopted over time, amidst grumbling that as worker-owners we were disenfranchising ourselves and becoming a more hierarchical and management-run organization. In fact, we did become more hierarchical and management-run, but after the initial shock wore off almost everyone agreed that the business ran better, and that what we had done was not abandon democracy but make a necessary shift from direct to representational democracy.

Having workers on the board, as directors, evaluating the CEO's performance, while the CEO evaluated the board members' performance as workers, could have created paralysis. But we became adept at wearing several hats, and remembering which hat we were wearing at any given time. In fact, the experience of frequently putting on our "owner's hat"—of having to balance long-term objectives with the desire for immediate gratification, of practicing self-restraint as well as self-reward—was educational for almost everyone. We consistently denied ourselves pay raises, expense accounts, and other dreamed-of perks—including a company hot tub—because we knew full well the limits of our financial resources.

## Workers of the world, own!

One supremely sensitive issue in organizations and societies is how much money people get. The questions, if taken to the limit, are profound. Are some people worth more than others? If so, why? By how much? And who decides?

In standard capitalist enterprises, these questions rarely get asked in any depth. In our company, by contrast, we raised them continually. When we started, the founders thought that all workers—installers, sales people, engineers, administrators—should receive the same compensation. The debate that raged in the early years was whether some workers should receive more than others on the basis of need, which we defined mainly by the number of children a worker had. The prevailing view at the time—perhaps because most of us were single—was that pay should be tied to a person's contribution to the workplace, not to outside needs.

As time passed, it became evident that some people were working harder, had greater skills, assumed more responsiblities or risks, and/or could command more money on the outside than others. In the ongoing debate over compensation, the primary tension that emerged was between "blues" and "whites"—i.e., between our trades people (who saw themselves as physical risk-takers, the "backbone" of the company, skilled, steady workers, and underpaid compared to union plumbers) and our sales people (who saw themselves as financial risk-takers, the "engines" of company growth, underpaid compared to sales people elsewhere). We came to appreciate that,

**. . . a group of workers sitting down and deciding how to divide the fruits of their labor.**



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## Our worker-owners hung in there because their jobs, their investment—their baby—were at stake.

outside of a purely market context, it is excruciatingly difficult to assess the comparative worth of people who labor in such disparate ways, so we developed a compensation policy based on the following principles:

—Pay differentials were justifiable, based on skill, performance, and degree of risk and responsibility, but no member of the enterprise could receive more than two times what any other member received.

—Installers would be paid hourly, office people monthly, and sales people on commission, but wages, salaries, and commission schedules would be designed so that comparable performance received comparable compensation. (In other words, an excellent installer would earn approximately the same as an excellent sales person, while an apprentice installer would earn less than an experienced installer.)

The effect of this policy was that people at the lower end of the two-to-one range tended to earn about what the market would pay them elsewhere, while top sales people, plumbers, engineers, and managers tended to earn less than their market potential. Inevitably there were dissatisfactions, and two owners (in more than seven years) did leave in hope of finding greater remuneration elsewhere. But the dissatisfactions were offset by the overall feeling of solidarity that our compensation policy gave us, and by the fact that we'd established our differentials democratically.

A related issue was how to handle our slumps. When a capitalist firm faces a downturn, it instinctively responds in a number of ways, such as laying off production workers, shutting down plants, and acquiring companies in other industries where sales are rising.

Our worker-owned business suffered from the seasonal nature of solar work, as well as hot and cold performance by our sales staff. Instead of firing owners, we struggled for sales, shared what work we had, and took across-the-board pay cuts. This slowness to fire unquestionably hurt our bottom line, but it also kept us ready to rebound when sales picked up—which, at least so far, they always have.

Distribution of profits was a less controversial subject, probably because for many years there were no profits to distribute. We never doubted that profits—despite their capitalist connotations—were a good thing. When after five years we finally recorded a respectable surplus, we rubbed our eyes in astonishment—and set to work figuring out what to do with it.

Committees were formed to research the various options. Then the entire staff met one evening to decide the final profit-sharing formulas. The discussion was orderly; no one was blatantly greedy; the decisions were responsible and fair. We agreed to retain 70 percent of our profits in the business, distribute 25 percent to ourselves and 5 percent to progressive community groups such as a center for battered women and a food program for the needy. The 25 percent distributed to ourselves was divided according to a formula designed to equalize disparities in regular compensation; to reward people for their "sweat" investment during unprofitable years; and to provide an incentive for cash investment.

What was more significant than the actual formulas was the sheer phenomenon of the debate itself—the act of a group of workers sitting down at the end of a year and deciding how to divide the fruits of their labor. I remember thinking to myself how extraordinary this scene was, how unthinkable within the context of capitalism as we know it, yet how logical, how satisfying, how right! In a very real sense, this was what socialist entrepreneurship was all about.

Change is never-ending. We recently decided to add outsiders—non-employee-owners—to our board to gain some detachment and expertise; we



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also lifted our two-to-one compensation policy to attract a talented marketing manager for new products. But the ultimate question in my mind when I hung out my shingle as a socialist entrepreneur—can it really work?—has been answered to my satisfaction. My conclusion is that it can. It isn't easy, but it *is* possible.

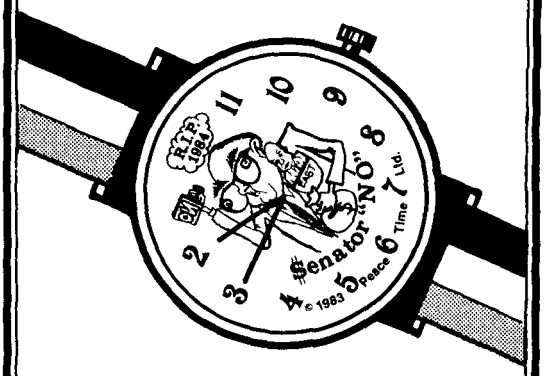
During seven years in the solar industry, I watched many capitalist businesses come and go. By contrast, our little "socialist island" turned out to be remarkably sturdy. In part this was due to luck, in part to some good business decisions, but in part it was due also to our structure. We had less turnover, more creativity, and more commitment from our work force than did most of our competitors. When the going got tough, when the profit margins disappeared, our worker-owners hung in there, because their jobs, their investments—their *baby*—were at stake.

There remains in my mind a question about the ability of worker-owned firms to respond rapidly to market changes. Beginning in 1982, with the softening of oil prices and the sharp attacks on solar tax incentives by President Reagan and California Governor George Deukmejian, we began to diversify into new product lines, a process we discovered to be much slower and more problematical for worker-owned firms than for capitalist ones. We not only had to identify new products and markets that were potentially profitable, given our firm's particular strengths and weaknesses, we had to find products and markets that would fit the skills of our current owners and that they'd feel good about working with. As I write, we haven't solved this problem of diversification, though we've narrowed the choices considerably and are quite clear that job preservation—not maximum return on capital—is still our main goal.

I'm pleased to note that a new infrastructure of cooperative-minded sources of capital and business expertise is developing, sparked in no small part by the realization by capitalists that worker participation in management can help beat the foreign competition. Even the business schools are turning out a few MBAs who are eager to work in cooperative environments.

When *Business Week* editorializes that "experiments with teamwork and worker participation demonstrate that this is not only possible, but imperative if the U.S. is to compete in the world market," it is clear that something is stirring inside the capitalist womb. Widespread worker ownership is decades down the road, but at least the road is visible. ■


# The Watch Is Out On Jesse Helms

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*(continued from page 19)*

in the increasing obsession with self; in the growth of barriers between different races and classes; in the disintegration of such community institutions as the church and the public schools. Reversing these trends is much easier said than done, for the struggle is over nothing less than the nation's soul.

Yet here lies the real virtue in the revival of voluntarism. Spending an hour or two a week to tutor a small child, giving an evening a month to work in a homeless shelter, teaching a retarded child to broad jump for the Special Olympics—what better way for individuals to fight back against the selfishness that now characterizes our society? While everyone bemoans the "politics of selfishness" and the growth of special-interest groups and political action committees, volunteering is something tangible that each of us can do immediately. And whether it's helping in a soup kitchen, cleaning up a park, or visiting a nursing home, it's an act that affirms the larger ties that bind us. Multiplied by the millions, volunteering can become the catalyst for creating a society characterized by both compassion *and* community. Such a society would be free of the conservatives' instinctive desire to ignore and wish away deprivation, and the liberals' tendency to avoid personal responsibility for it.

*(continued on page 50)*

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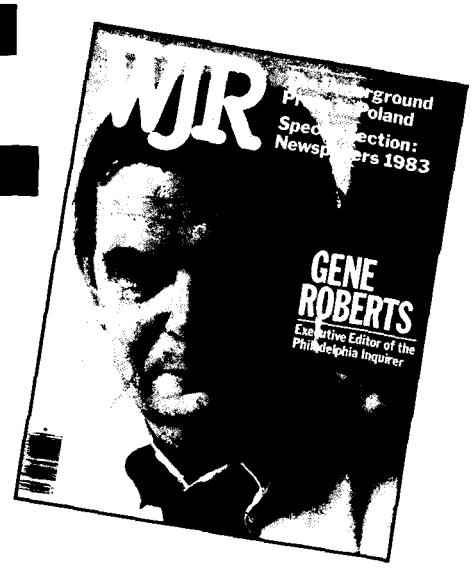


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*Betty Friedan has called for a "new passionate voluntarism" that will "transcend our single-issue, special-interest politics, including the politics of feminists themselves."*

And who can lead such a revival of voluntarism, one that recognizes the important role both government and private citizens can play? Not the conservatives; they have clearly failed. Ronald Reagan's ringing endorsement of voluntarism may be exactly right, but his pronouncements about voluntarism carry with them little recognition of the vast, unmet needs of society or a call for Americans to band together to tackle the staggering problems that remain. Reagan's version of voluntarism does not go beyond merely trying to rearrange the existing relationship between citizens and their government. Though Reagan and his fellow conservatives would not oppose outright a vast mobilization of volunteers, his administration's dismantling of programs for the needy and its silence on the larger problems facing the nation speak volumes about its true purpose. Reagan's rhetoric about voluntarism promised leadership; what he has delivered so far is anything but that.

Reagan's failure gives those of us who oppose his policies an opportunity to reclaim the cause of voluntarism. Indeed, the liberal suspicion of voluntarism is neither preordained nor even logical. After all, it was a Democratic president who gave voluntarism perhaps its most memorable endorsement. For when John Kennedy said, "Ask not what your country can do for you, but what you can do for your country, " he wasn't calling for increased taxes to fund social programs. He was asking each of us to inquire as to what we could do in our own communities to improve the quality of life. The call not only bore fruit in such programs as the Peace Corps, but added purpose to those who earned their living working for the government, reinforcing their belief that what they did was worthwhile and important.

Fortunately, there are signs of a reawakening awareness of voluntarism's potential to lead us beyond the politics of selfishness. One sign lies in Friedan's call for a revival of voluntarism for the express purpose of "transcending our single-issue, special-interest politics, including the politics of feminists themselves." Yet another sign is what volunteers are doing across the country, and not just in those small towns where voluntarism has always been a strong tradition. Perhaps the most ambitious effort is occuring in North Carolina under the leadership of Governor Jim Hunt. Last year over 70 percent of its adults volunteered; the services they donated to the state government alone were worth more than $300 million. More men than women volunteered, and the vast majority of those who gave of their time had full-time jobs.

Hunt, a Democrat, volunteers every Monday in a public school as a math tutor; his wife regularly serves meals on wheels. In stark contrast to Reagan, he has established a special office for volunteers and given it the necessary funds to recruit and train people. Hunt believes that meeting his party's traditional obligations to needy citizens, and overcoming the deep divisions that now exist in our society, will require "a new kind of thinking among Democrats" in which "voluntarism is the key. " Hunt adds, "Money is no substitute for getting involved with your hands and your heart."

But most important, voluntarism offers hope. The unraveling of the common threads in American life threatens us economically as well as spiritually. Overwhelmed at the prospect of overcoming this disintegration, many people feel paralyzed, unsure of where to start and what to do. That needn't be the case. For in the rejuvenation of voluntarism is proof that our best hope lies in something as simple as venturing forth from the comfort and familiarity of our own homes—and discovering who our neighbors really are. ■



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# Why I Walk the Beat

Police Officer Vinnie Lupinacci of Manhattan's 20th precinct is an authority on all things, his particular areas of expertise being the New York Yankees and the human race Regarding the latter, Lupinacci has a universal piece of advice, especially for what he calls "my kids"—the all-volunteer auxiliary police unit in the 20th, whose work he coordinates The phrase is Common Sense Dictates—CSD to Vinnie's "kids"—and as one of them, I can testify to its calming reasonableness in the face of the chaos of big city law enforcement

What Vinnie knows—indeed what common sense dictates—is that auxiliary cops work Uniformed but unarmed, aged 17 to 60, they patrol New York's streets on foot When asked what exactly I *do* one night a week for about three or four hours, I often find it hard to come up with much Mostly my partner and I just walk. But in so doing we provide a service that has all but vanished from most city streets

A typical night on APO duty begins a little before 7 p m with a rag-tag roll-call at the precinct house After the coordinator assigns partners and beats, we head out by 7:30 Sensibly, the APOs are usually sent into areas in the precinct where the most people are—but not necessarily the most crime As deterrents more than crook-catchers, APOs belong in areas where they show the flag to the largest numbers of people and leave the skilled work of catching bad guys to the paid police. In my precinct, on Manhattan's West Side, APOs usually work Broadway and Columbus Avenue in the 70s and 80s, among the most heavily traveled thoroughfares in the city

Once the APOs leave the precinct house, walkie-talkies in hand, their basic job is to keep their eyes and ears open Most of the work comes to us: lost visitors ask directions, motorists ask about parking rules, residents complain about burned out street lights The most dramatic work for auxiliaries is related to injury or sickness. APOs are trained in first aid and know how to deal with car accidents and restaurant chokings until the ambulance arrives. Frequently they help the paid police keep gawkers away from the scene of an accident or a crime and control harmless crowds at parades and block parties—all necessary work, but not the best use of a paid officer's time

The usual tour runs until about 11 p m and, even in the most dangerous neighborhoods, is usually uneventful APOs in poorer areas tend to field more complaints about social services, but their presence inevitably pushes the crime aside, at least for a while Stories of APO heroism abound—people pulled from burning cars, muggers foiled, Heimlich maneuvers maneuvered—but they are far from the norm The typical activities of an APO tend to be routine, even boring

The most exciting entry in my own log book is my description of directing traffic on Columbus Avenue when a moving van blocked a side street Still, I know my work makes a difference I can see the appreciation in the faces in the neighborhood Drunks and bums stay away from my beat Noisy kids quiet down Old people walk confidently when they see my uniform

As anyone who lives in a big city knows, the cop on the beat largely has gone the way of the doctor's house call In attempting to increase mobility, spread thin resources, and cut "response time"—all worthy aims—in the middle of this century the police embraced the automobile and haven't let go What the cops didn't prepare for was the resulting loss of contact with the community—and the consequent decline in public order "A police car travels down the street like a tank, " former New York City Mayor Robert Wagner once said "It can't see you; it doesn't know you " The little encounters, the gossip—the *feel* of the beat—are gone.

Unfortunately, a full-fledged return to foot patrols by paid officers may now be almost impossible. Budget cutbacks have been so deep that there just aren't enough officers to go around New York City,for example, had 31,797 cops in 1970; it has 23,400 now Also, most police training is geared now toward the automobile, and police unions know that their members prefer the climate-controlled working conditions of their cars to the al fresco beats on the sidewalk

Auxiliaries are the logical choice to move into the gap, not just for fighting crime but also, and just as important, for building new bridges between the police and the community One of the great virtues of the APO program is that its makeup in each precinct reflects the neighborhood's population For a police department that is 82 percent white in a city that is only 60 percent white, that makes an important difference. Fully half of New York's 8,000 APOs are minorities and more than a third are women (who comprise only 7 percent of the paid police force) "Where a large percentage of blacks and Hispanics live, there are a lot of black and Hispanic auxiliaries, " says Lt Lawrence Abrams, personnel director of the New York APO program "They are superb, " he adds "They are irreplaceable "

Why, then, are auxiliaries not in wider use? Only New York City has a truly large-scale APO program, and just a handful of other cities have any active

*Jeffrey Toobin has been an auxiliary police officer in New York City for the past year.*

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volunteeers at all. One answer, in part, can be seen on the bathroom walls of the 20th precinct "AUX. COPS STEAL REAL COPS JOBS " "HOW WOULD YOU LIKE IT IF SOMEONE CAME TO YOUR OFFICE AND DID YOUR JOB FOR FREE " The paid police, in short, are not fond of us "Many of the unions call them scabs, " says the Police Foundation's Murphy "You have to overcome the opposition of the unions to get the auxiliaries involved, " adds Minneapolis police chief Anthony Bouza, previously a well-known gadfly in the New York City department, who has greatly expanded the use of auxiliaries in his city and thinks New York has vastly underused this resource

"The first thing the unions say, " Bouza continues, "is that the auxiliaries take their jobs, but even they know that's not true. " Indeed, it is hard to imagine any mayor telling the voters he is going to replace the police with volunteers. "The real issue, " says Bouza, "is you have the police saying, 'everyone else runs away from trouble and we run at it and put our necks on the line—and here you have some schmuck coming along and doing that job for nothing.' The unions don't want their jobs diminished in that way "

Bouza gets to the heart of the issue. In contract negotiations and public relations, the police rely heavily on the danger of their jobs to earn both sympathy and cash. And well they should; police work is hazardous and cops should be paid fairly for their risks. But so, too, is much police work routine and well within the abilities of volunteers. When President Reagan visited Minneapolis in June, Bouza's police reservists were the largest force there. "We use them at accident scenes, Twins and Viking games, summer festivals—they are essential. Lord knows what we would do without them, " he says.

For the record, most New York police officials are quick to deny any bad blood between the paid cops and the APOs. "The relationship has improved immensely, " says personnel director Abrams. "The attitude is changing now that we're getting a younger department, " according to the auxiliary's Lev. But off-the-record the signs are different Many auxiliaries are confidentially advised by their friends on the force not to identify themselves as APOs when using the walkie-talkies; some paid cops regularly jam auxiliary transmissions. Other signs of hostility are less subtle. One auxiliary, David Freed, was killed in Central Park in 1976. Contrary to police tradition, there is no commemorative plaque on the wall of his precinct

Despite these tensions, the New York police have made the auxiliaries an important, if not fully integrated, part of the force. Most other cities have no program at all—or have one with such forbidding requirements that all but the most zealous of police buffs are turned away In Los Angeles, for example, the Police Line Reserves train at the police academy part time for nine months, after which they must serve two eight-hour shifts per month, and are required to carry police revolvers on patrol For the Washington, D.C , police reserve, training is twice a week for three hours over a period of 10 to 16 weeks Small wonder that there are only 200 auxiliaries in Los Angeles and 150 in Washington

To its credit, New York realizes that it must keep its demands on volunteers reasonable if the force is to be of significant size. Our classes were one night a week for 13 weeks, with a compact 58-page, loose-leaf training manual supplementing the classes. We had one class on first aid and two on self-defense, primarily on how to use the nightstick (something APOs almost never have to do) The training is laissez-faire and rightly so In a move that goes completely in the wrong direction, however, a New York City Council member, Susan D. Alter, has introduced legislation to create an armed volunteer reserve police force. With more elaborate training and emphasis on guns this new force would surely attract fewer volunteers and lead to more conflicts between APOs and paid police. The legendary inactivity of the council, however, will probably save the public from this wrongheaded proposal.

If auxiliary police programs serve cities well, they also enrich the lives of the volunteers themselves In my first four nights out, my partners were an unemployed social worker, a Fordham undergraduate, the president of an office temp agency, and New York's premier hairdresser for poodles. We share only a commitment to the Upper West Side, an interest in police work, and a fondness for "Hill Street Blues. " Police and weapons buffs seem to be an almost invisible minority; the people I work with are none-too-fond of their nightsticks and would be horrified at the thought of carrying a gun.

The APOs will not solve America's crime problems, but they can improve the quality of life for city dwellers everywhere. In a time of unending fiscal crises for local governments, the APOs cost taxpayers almost nothing. We supplement, but do not replace, the police, who should embrace us as a way to make their jobs easier rather than fight us as a threat to their turf We smile at the couples slurping their designer ice cream on Columbus Avenue. We tell the kids on Broadway to look before crossing the street. We demonstrate that when we can't always count on the government, we can sometimes count on ourselves. And the auxiliaries may be an important reason why, Johnny Carson's monologues notwithstanding, New York has less crime per capita than many other big cities

*—Jeffrey Toobin*

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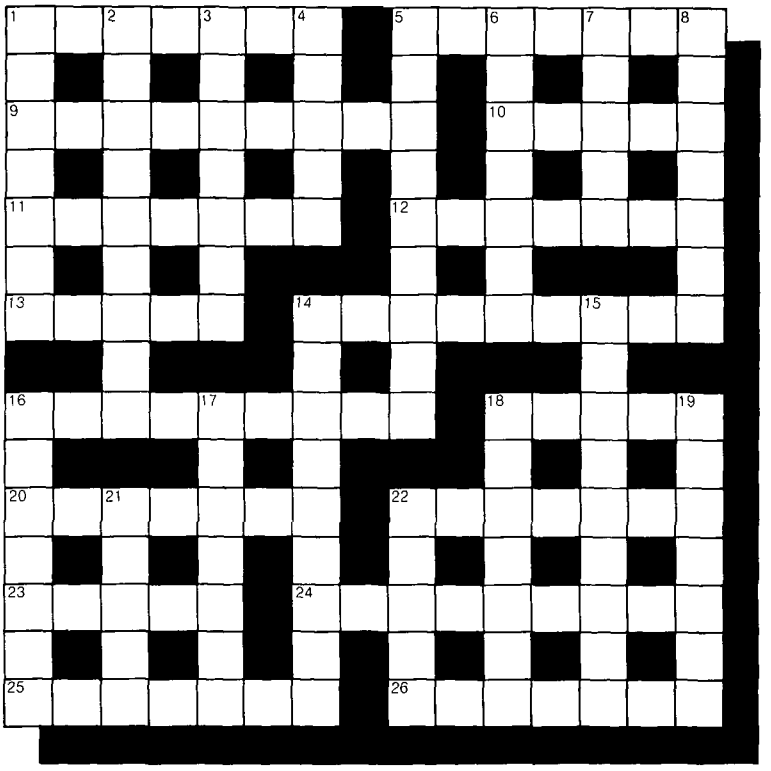
# POLITICAL PUZZLE



by John Barclay

*The numbers indicate the number of letters and words, e.g., (2,3) means a two-letter word followed by a three-letter word. Groups of letters, e.g., USA, are treated as one word.*

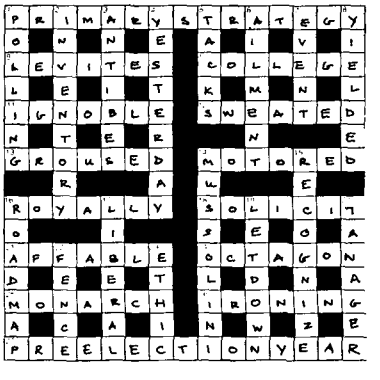
## ACROSS

1. No-no with Treasury check (550 in back). (7)
5. Tried to change a convention site. (7)
9. Pleasure from shapes formed around pin. (9)
10. Surplus in complex transformation. (5)
11. Lieutenant changing gears in the maximum. (7)
12. Concentrated popular verb form. (7)
13. Carries on about trains? (5)
14. Unhappy about bare slime. (9)
16. Evil steed displayed on video. (9)
18. Quick! Beginning of phrase is wrong. (5)
20. Soldier points around machines. (7)
22. Snack for Carter? (7)
23. Dances for the movies? (5)
24. Not give sufficient credit for a returned medley. (9)
25. No medal prepared for early front runner. (7)
26. Dad's led around carrying a burden. (7)

## DOWN

1. Clash or confused class member. (7)
2. Brat swings lariat on neither side. (9)
3. They push household appliances around five. (7)
4. Choose the Spanish version of common abbreviation. (5)
5. Got rid of oddly-sided miss. (9)
6. Change the rate for Kennedy Center house. (7)
7. Frequently could follow quarter? (5)
8. Performers' bar. (7)
14. Guessed wrongly about muses' aims. (9)
15. Keep out of segregated dance? (9)
16. Belief placing metal deposit in opposition. (7)
17. Actress saves an arrangement. (7)
18. Featured Red arts display. (7)
19. Indicate surprising net drop. (7)
21. The spaceman cometh? (5)
22. Legal systems in Mexico destroyed. (5)

*Answers to last month's puzzle:*





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# *Thomas J. Peters*
# *ON POLITICAL BOOKS*

Two recent works that have received scant attention shed new light on the deep-seated problems of America's economic performance.

The first is a study released in June by the American Business Conference (ABC), a new lobby representing America's long-neglected mid-sized growth companies.* These companies, whose revenues range from $25 million to $1 billion, represent 1 percent of the businesses in the United States but 19 percent of the jobs. From 1976-1980 their employment rose 8.6 percent a year compared with 2.8 percent for companies on the *Fortune* 500 list; in 1981 and 1982, as the rest of the economy shrunk, they grew. These are the companies of America's future, but they are not all high-tech firms, as one might expect. On the list of 45 top growth companies analyzed in ABC's study are A.T. Cross (Cross pens, etc.), Lenox (the china makers), and Dunkin' Donuts. The study, which examined the companies' management practices, was conducted for the ABC by McKinsey & Company, a respected management consulting firm.

Now to the findings. The most important is that management practices in these top growth companies refute almost all conventional wisdom that's accumulated in the past quarter-century. The authors observe, "Successful executives are supposed to be cool, rational, professional managers. The men who run these companies, instead, are obsessed by their enterprises. They have great visions of building institutions." Terms like "missionary zeal" are peppered throughout the report, all the more remarkable given the unswervingly conservative, understated bias of McKinsey & Company. The leaders, say the authors, are unfailingly "persistent to the point of obsession" and are described as "builders, not bankers," willing, as several executives noted, to sacrifice the short term for the long term. Says one executive: "In the last analysis, it is only by encouraging an entrepreneurial attitude that things happen. Sometimes this requires the willingness to sacrifice current profits for future ones."

The strength of these companies is most clearly reflected in two key, and again unconventional, business strategies. In the accountant- and lawyer-dominated boardrooms of the *Fortune* 500, cost containment is the holy grail. "Make it cheap" seems to be the corporate motto in much of America. The authors note that the most "widely held theory posits that commercial success lies in mastering the 'industry experience curve' through economies of scale, doing the same thing cheaper and cheaper." Yet the clear focus of 43 of the 45 high-growth winners is on adding special value to their products through an emphasis on superior quality and customer service. The authors conclude, "Winners almost always compete by delivering a product that supplies superior value to customers, rather than one which costs less." They add, "This emphasis on product quality and customer service is clearly evident in the priority it receives from the men who run high-growth, mid-size companies. Virtually all report spending 'considerably more' on customer service support (e.g., technical services, repair 'hotlines') than their competitors."

These companies also listen. In the words of one chief executive officer, "I've got to know [my customer's] business and problems at least as well as I know my own. I've got to show him how much I can help him—not vice versa!" The authors observed: "The importance of gearing an organization to 'think like the customer' and of the important personal identification of the chief executive officer with this value [was predominant]."

The authors' second key finding is the companies' willingness to fight bureaucracy and encourage continuous innovation. They urge people to "try it, rather than analyze it to death." Staffs are tiny or nonexistent in the best mid-size

*Thomas J. Peters, co-author with Robert H. Waterman of* In Search of Excellence, *is a management consultant in Palo Alto, California.*

**What's Right with American Business.* American Business Conference, Washington, D.C.



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companies. Fifty-one percent had a very small corporate planning staff; 40 percent had none at all. Seventy-five percent had a very small or no legal affairs staff; 98 percent had a very small or no government relations staff; 100 percent had a very small or no investor relations staff, and so on.

The companies' insistence on constant innovation and superior quality and service requires giving employees a stake in the enterprise. These companies are excellent developers of people, and, in hard terms, employee ownership is very high. Around 31 percent of the stock in these 45 companies was employee-held, as compared to 4 percent for the *Fortune* 500 as a whole.

All in all, the authors make a superb case for the importance of these companies in the country's economy. They demolish the assumption that high growth is necessarily correlated with high technology. And they show how management practices that are unconventional by today's standards are the most successful.

All of which raises an important question: Where have the so-called conventional management practices that have not served us very well of late come from? From America's leading business schools, and at the head of the list, of course, is Harvard. As of 1978, 300 of the 1,500 top people at the *Fortune* 500 companies had passed through its halls.

Many observers of late, from Robert Reich (*The New American Frontier*) to Bill Abernathy, Kim Clark, and Alan Kantrow (*Industrial Renaissance*), Allan Sloan (*Three Plus One Equals Billions: The Bendix-Martin Marietta War*), and my colleague Bob Waterman and I (*In Search of Excellence*), have noted the culpability of the business schools, or at least business school thinking, in the current decline of American economic performance. How have the schools responded? Fran Worden Henry's new book, *Toughing It Out at Harvard: The Making of a Woman MBA*, which covers her years as a student at Harvard Business School from 1980 to 1982, suggests that the answer is "not very well. "

Henry's book is a superb insider's view of the school and a damning analysis of the tone and content of training at the world's premier provider of corporate leadership. Henry, a successful entrepreneur engaged in helping small businesses, went to Harvard at age 32. She came away at least partially satisfied. Bankers, she says, now treat her as an equal, and, "Beyond the pain, a whole new world is opening up for me. " But at what a cost. She finds people "at ease putting themselves first" in an environment where "rude behavior was more acceptable than anywhere I had ever been. " Noting her failure to help a colleague who physically collapsed during an exam early in her first year, she writes, "The old part of me, preschool, would have gotten up, gone over to that troubled woman, helped her out of her seat, and taken her to a lounge to lie down. The part of me that was new. . . just let her take care of herself while I took care of me. "

Equally disturbing is a faculty hell bent upon intimidating students on the one hand and encouraging brutal competitive interchange on the other. The thoughtless bluntness thus inculcated has long been observed by those who deal with the Harvard product. Arguably, the faculty methods would have some justification if what was taught had merit. But Henry repeatedly observes that the case method, almost solely justified because of its "real world" virtues, has little relation to reality. She especially derides the fabled week-long "business game" exercise where "profitability and market share are the only measures of success, " and she describes the "midnight trips to other [teams'] trash cans to dig out computer output on their cost levels. " (Even *Fortune* took a dim view of the game in a 1982 article addressing the dubious morality of student behavior.) Similarly, faculty and students alike are ill-prepared, she says, to deal with "the lives and feelings of workers." This is frighteningly illustrated in their crude and unseemly responses to a case built around the movie *Harlan County USA*, which deals with bitter and often violent labor disputes in Kentucky coal country: "We couldn't put 'them' on an equal footing with



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'us. ' It is as if understanding what it was all about for a worker might weaken us, cause us pain, make us question. " She notes time and again that business is dealt with only in ways that are "so mechanical, so detached, so absolutely unfeeling. "

Glimpses of fellow students add to the bleakness of the assessment. One colleague is appalled when Henry hints that she may settle in western Massachusetts, and sternly warns, "But Massachusetts has one of the highest tax rates in the country. " She responds in part by commenting on the lovely setting, to which he rebuts: "Pretty is not the issue. How much you have to pay is. I'm heading for the South. "

What a contrast Henry's analysis of heartlessness and job selection based upon tax-rate considerations is to the ABC study finding that America's most successful growth company chief executive officers explicitly put "visions of building institutions ahead of mere creation of personal wealth. "

As my own examinations continue, I, too, am increasingly struck by the high correlation between top performance—regardless of company size or kind of industry—and quality, service, and customer courtesy; innovation at all levels; managements that stay in close touch with customers and suppliers, and, above all, treat every employee with dignity and respect. From the exciting new success tales at Apple, Tandem, The Limited, Walmart, and People Express, to the continued saga of superior performance at IBM, P&G, Hewlett-Packard, Johnson & Johnson, and 3M, the story is the same.

The business schools are out of step with this evidence. I regretfully have begun to conclude that they are doing more harm than good. I no longer flippantly say, as I used to, "close their doors, " because now I'm beginning to believe this idea may have serious merit. If we don't shut them down, at the very least a wholesale examination of their impact and a reexamination of the substance of their teaching is surely called for. Americans are not competing effectively in market after market, from low technology to high. Quality, service, customer listening, in-touch managers, continuous innovation—all people issues, pure and simple—are at the heart of that problem. Robots and microprocessors won't save us, nor will new techniques of analysis. Where are our business schools now when we really need them?

■


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# POLITICAL BOOKNOTES

**Channels of Power: The Impact of Television on American Politics.** Austin Ranney. *Basic Books, $14.95.* Finally, a sensible book about how television has changed politics. Television makes life difficult for politicians, says Ranney, a political scientist, but not because news executives have joined any creepy conspiracies on the left or right. Instead, it's because of the way TV news works. To fill each evening's broadcast with mini-dramas, reporters seek out conflict and inflated promises, raising our expectations of what government can do. But then TV sabotages these same politicians by judging them too soon and encouraging public duels instead of private compromises. Is it any wonder we keep throwing them out?

*—Tina Rosenberg*

**A Hero For Our Time: An Intimate Story of the Kennedy Years.** Ralph G. Martin. *Macmillan, $19.95.* In explaining why he wrote this long, ramblingly anecdotal and ultimately fawning biography of John F. Kennedy, Martin recalls a cozy afternoon he spent back in 1959 being charmed by Jackie Kennedy in the course of researching a book on presidential campaigns. "She must have had 'morning after' concerns about things she had told me that could have been sensationalized so easily," Martin writes. But when the book was published "without any of her revelations," the first lady showed her "quiet gratitude" by listing it in a national magazine as one of her "favorite books that year." Martin's new book reveals more—for instance, that JFK spent most of his private moments on crutches because of back pain—but maintains an obsequious tone about what Martin calls the Kennedy "magic" that should help the book make it to the top of Jackie Onassis's list this year.

The oddest thing about the book is that in focusing on Kennedy's personal life rather than his political accomplishments, Martin seems to almost deliberately avoid answering Garry Wills's criticisms of JFK's presidency in *The Kennedy Imprisonment*, while at the same time doing everything he can to resurrect the Kennedy image indirectly. The strategy proves ineffective because Wills's criticisms of Kennedy the man were far more devastating than his criticisms of Kennedy the politician.

*—Timothy Noah*

**The Evening Stars: The Making of the Network News Anchor.** Barbara Matusow. *Houghton Mifflin, $14.95.* In this anecdotal analysis of television news anchors, Barbara Matusow reveals that back in his newspaper days Walter Cronkite once burgled a private home to get his story's necessary goods. The book is filled with similar gossipy vignettes, but there's at least one useful insight about the industry: the men and women who appear on the evening news are surprisingly uncredentialed (only a handful ever finished college).

*—Emily Lazar*

**Outrageous Acts and Everyday Rebellions.** Gloria Steinem. *Holt, Rinehart, $14.95.* Gloria Steinem's feminist voice has always sounded soothingly rational amidst the chorus of outraged cries from her more strident sisters. This collection of essays and articles from the past two decades echoes the same sensible tone. Steinem's treatment of lesbianism, for example, reassures us that it is but one verse of feminism rather than the whole song—an attitude unlike that of many feminists who have alienated middle America by making women's rights and lesbianism one and the same issue.

Although Steinem's matter-of-fact essays prick the conscience, her reportorial pieces—where she comments on feminism through the vehicle of a Linda Lovelace or a Pat Nixon—are the most convincing. Best of all is "I Was a Playboy Bunny," the first piece of the collection. Steinem lied her way into a Playboy bunny job in 1963 to write this story. The first day on the job she—like all the other bunnies—shoved her body into a two-sizes-too-small electric-blue French-cut bunny suit, stuffed her bosom with a dry cleaner's bag, and tottered out to the club in four-inch heels.

Walking home from work that night, Steinem passed a woman "smoking a cigarette and watching the street. Her hair was bright blond and her coat bright red. She looked at me and smiled. I smiled back. She looked available—and she was. Of the two of us, she seemed the more honest."

*—Teresa Riordan*

**Profits Without Production.** Seymour Melman. *Knopf, $18.95.* Ten years ago, not many would have predicted that we would now be reading avidly about industrial design in the machine-tool industry. Yet here we are. This book is, among other things, a sign of the times.

In places, there's a Rip Van Winkle quality, as though the author doesn't realize we've been told some of this before. Do we really need to hear, for example, that a visit to our local hi-fi store reveals that "only a minor part of the sophisticated products offered for sale are made in the U.S."? Melman, thank goodness, moves quickly past such yawners into original and, I think, intriguing terrain.

Bringing the insights of industrial engineering to the problem of declining productivity, Melman shows how management power-tripping, and not efficiency nor the demands of changing technologies, gave rise to the mind-numbing assembly-line production modes which have become an albatross to American industry. He is especial-



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ly strong on showing how burgeoning defense spending has warped the thinking of managers in critical industries such as machine tools. The insidious cost-plus contracts, he maintains, have inclined a whole generation of managers to pass along costs rather than minimize them, and this has disrupted the dynamic which, not too long ago, enabled us to pay the world's highest wages and at the same time turn out the best, and lowest-priced, products.

There is a generous sprinkling of statistical gems. Did you know that in 1899 there were ten managers for every 100 production workers, while today there are 43 for every 100? I didn't. And while I've sworn off stories of Japanese management, I can't help pointing out that in Japan's machine-tool industry, the engineers actually go to work on the shop floor so they can understand the tools and processes they are inflicting upon others.

*—Jonathan Rowe*

**The Rosenberg File: A Search for the Truth.** Ronald Radosh and Joyce Milton. *Holt, Rinehart, $22.50.* Ever since Julius and Ethel Rosenberg were electrocuted as "atom spies" back in 1953, they have been regarded by the left almost exclusively as symbols of cold war hysteria. In the process, the question of their guilt has become bound up with the question of whether they deserved to die. Radosh and Milton untangle the two issues, and conclude that Julius was definitely guilty, Ethel was probably guilty, and that neither of them ought to have been put to death.

Although the argument that Julius really was a spy will be new to most of us who were brought up to believe the prevailing liberal mythology about the case, the odd thing is that at least one Communist party lawyer the authors spoke with openly admitted, "Of course they were guilty. But you can't quote me. My public position is that the Rosenbergs were innocent." A "well-known left-wing lawyer" who also believes the Rosenbergs were guilty went so far as to threaten to sue Radash and Milton if they attributed that statement to him.

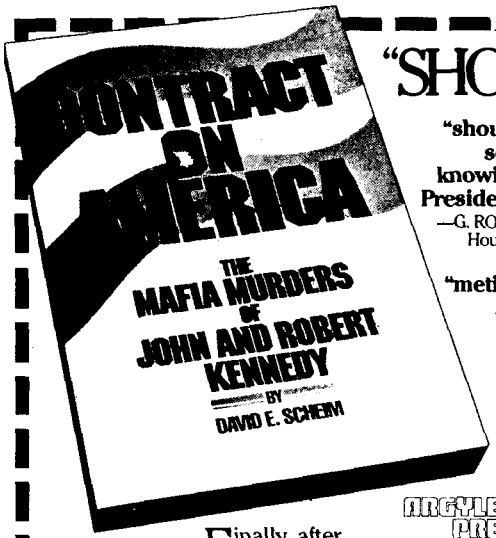
Such dishonesty is regarded as expedient by these ideologues because of the larger question of whether the witch hunts of the fifties were justified. But it is possible to believe that the Rosenbergs were guilty and at the same time recognize that justice was not served in their death. Radosh and Milton make a persuasive case that the real reason for Ethel's prosecution was to make Julius confess. And there's the stinging injustice that while the Rosenbergs went to the chair, Klaus Fuchs, who passed along far more important secrets, got only 14 years when he was tried in Britain.

*—T.N.*

**The Warrior and the Priest: Woodrow Wilson and Theodore Roosevelt.** John Milton Cooper Jr. *Harvard University Press, $20.* Cooper believes that during the postwar era Americans have tended to exaggerate the ideological significance of the New Deal; the polarities of political debate in our own time owe not so much to FDR and his oppositon, he argues, as to Wilson and the earlier Roosevelt. Cooper elevates the long-standing political and intellectual rivalry of these two presidents to a plane of significance more customarily reserved for that of Jefferson and Hamilton.

Wilson, in this analysis, is found "enunciating the basic tenets of the broker-state and welfare-state views that later held sway among Democrats and reformist circles." He also comes to stand for the self-consciously antagonistic attitude toward big business that has marked some strains of postwar liberalism. Roosevelt, by contrast, stands in opposition to "the degeneration of interest-group politics into narrow conflicts that strain national cohesion and debase politics into a scramble for favors." His legacy has faded since the sixties as northeastern Republican liberals lost influence in the party and at last became extinct.

*—Phillip Longman*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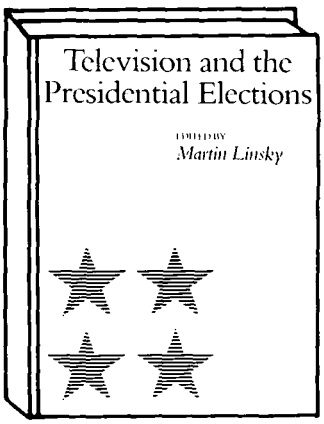


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